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**INSULAR POSSESSIONS
OF THE
UNITED STATES**

REPUBLIC OF CUBA

OUR UPTOWN OFFICE

The particular attention of our clients, and of investors generally, is called to the convenient location of our uptown office at

15 East 45th Street.

This is in the midst of the retail shopping district, only five minutes walk from the Grand Central Depot, within fifteen minutes walk of the Pennsylvania Depot, and near to the principal hotels and leading clubs. This office is fully equipped to handle business in an efficient manner.

Insular Possessions of the United States

Hawaii, Philippine Islands

Porto Rico

Republic of Cuba



Including brief historical and descriptive sketches and statements of financial status

Harvey Fisk & Sons
New York

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MAPS

Hawaiian Islands	Facing 9
Philippine Islands	Facing 33
West Indies	Between 86 and 87



WILLIAM McKINLEY

**The President during whose administration the United
States assumed the responsibility of the manage-
ment of Colonial Possessions.**

INTRODUCTORY NOTE

When on April 20, 1898, the Congress of the United States adopted a joint resolution demanding that Spain at once relinquish its authority and government in the Island of Cuba, a step was taken fraught with consequences which at that moment were little realized.

Within the short period of four months the United States found itself charged with the responsibility of governing new possessions in the West Indies and in the far away Philippine Islands.

Problems of governmental administration called for immediate solution. The most elementary matters, such as sanitation, public education and the like, had to receive prompt attention, as well as providing for law and order and for the public income and expenditure of active communities, which, however, lived under very different social, governmental and business conditions from those known and practised in the United States. In brief, the United States Government was compelled by the logic of events to provide almost overnight a system of colonial government for possessions which it had not sought and which, in the main, certainly, it had no intention of permanently retaining.

This important duty was devolved upon the War Department under a special bureau organized for the purpose known as the Bureau of Insular Affairs.

The affairs of the Philippine Islands, of the Island of Guam, and of the Island of Porto Rico are still administered under the supervision of this department.

The government of Cuba was surrendered to the Republic of Cuba on May 20, 1902, although the United States was compelled to intervene for a period of about a year, from December, 1907, until January 24, 1909.

It is proposed, in time, necessarily perhaps many years hence, to turn over the government of the Philippine Islands to their own people.

It seems likely that the Island of Porto Rico will remain indefinitely a possession of the United States. It already has a considerable measure of self government. Undoubtedly it will, ultimately, be given a form of territorial government.

The Hawaiian Islands did not come to the United States from Spain, but after an independent existence of many years, at the request of their people, were annexed, on August 12, 1898, and organized as the Territory of Hawaii on June 14, 1900.

In a way, the United States stands sponsor for all four countries, if such they may be called.

Under the terms of the treaty of Paris, ratified December 10, 1898, and of the so-called Platt Amendment, the United States is obligated to see that a stable government is maintained in Cuba, that she is protected from foreign invasion, and that she incurs no indebtedness upon which she cannot meet from her current revenues the interest and amortization charges. Thus, while Cuba is an independent nation,

she is at the same time entitled to the protection of the United States, and in return therefor is obligated to maintain a stable government, as more fully explained in a later chapter. For this reason, Cuban bonds may be properly included in considering the obligations of the Insular Possessions.

It should be noted that while the United States Government exercises a supervisory power in connection with the issuance of bonds by the Republic of Cuba, the Territory of Hawaii and the Governments of Porto Rico and of the Philippine Islands, it does not guarantee either the principal or interest thereof.

In the case of Porto Rico and the Philippines, however, the facilities of the United States Treasury have been placed at the disposal of these governments, the United States acting as fiscal and transfer agent for part of the Porto Rican issues and for all of the Philippine issues.

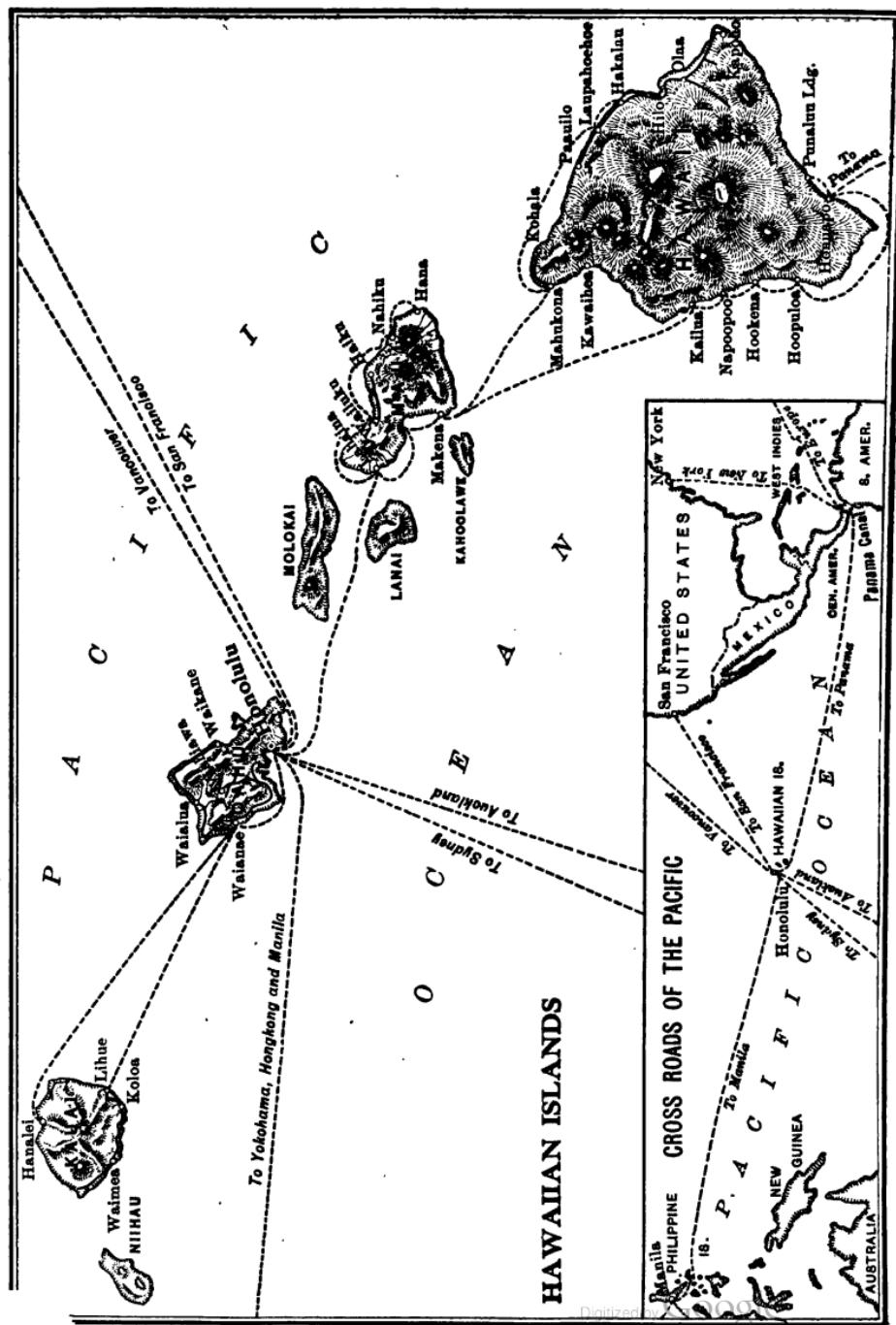
No debt may be incurred by the Territory of Hawaii without the consent of the President of the United States. Bond issues by the Government of the Philippine Islands must be similarly approved. No such provision exists in regard to the incurring of debt by the Government of Porto Rico, but as stated above, the United States retains a veto power in the case of Cuba.

In regard to taxation there is an unqualified exemption from state and federal taxes so far as the Philippine bonds are concerned. By a decision of the United States Supreme Court, the bonds of Porto Rico and Hawaii are apparently similarly exempted from taxation. Cuban bonds, being those of an independent government, are taxable in the United States.

The Hawaiian, Philippine and Porto Rican bonds are received by the United States Treasury as security for public deposits at their market value, but not exceeding their par value. They are also accepted at par by the Post Office Department as security for postal savings deposits.

Backed as they are by rich and prosperous communities, and issued under the supervision of the United States Government, the bonds of the Insular Governments, of the Territory of Hawaii and of the Republic of Cuba would seem to afford a safe and conservative form of security for the most discriminating of investors.

New York, December 20, 1916.



PART I.
INSULAR POSSESSIONS OF UNITED STATES
TERRITORY OF HAWAII
CAPITAL HONOLULU

The Hawaiian, or Sandwich, Islands formed during the greater part of the nineteenth century an independent kingdom, but in 1893 the reigning Queen, Liliuokalani, was deposed and a provisional government formed; in 1894 a republic was proclaimed, and in accordance with a resolution of Congress of July 7, 1898, the Islands were on August 12, 1898, formally annexed to the United States. On June 14, 1900, they were constituted as the Territory of Hawaii. The organic act has since been amended several times. There is a legislature of two houses; a Senate of 15 members elected for four years and a House of Representatives of 30 members elected for two years. Sessions, limited to 60 days, are held biennially. The Governor and Secretary are appointed for four years by the President of the United States. The Territory is represented in Congress by a delegate elected biennially. He has no vote.

AREA AND POPULATION

The total area of the islands is 6,406 square miles. The principal islands of the group are Hawaii, 4,015; Maui, 728; Oahu, 598; Kauai, 547; Molokai, 261; Lanai, 139; Niihau, 73; Kahoolawe, 44.

CIVILIAN POPULATION

The estimated civilian population on June 30, 1915, was 223,256, an increase of 33,185 or 17.45 per cent. since the census of 1910.

The Bureau of the U. S. Census estimates the population for January 1, 1917, at 217,660.

ARMY AND NAVY POPULATION

This is erratic according to the policy of the Federal Government and increased from 1,838 in 1910 to 9,600 June 30, 1915, and a further large increase is expected.

The estimated population of Honolulu, the capital of the Territory, is 64,150.

The following table shows the population by races, as nearly as can be estimated, as of June 30, 1915, with the increases and decreases that had occurred during the five years and two and one-half months since the last decennial census was taken:

ESTIMATED POPULATION JUNE 30, 1915

	Census Apr. 15, 1910	Estimated June 30, 1915	Increase	Decrease	Per Cent. Increase	Per Cent. Decrease
Hawaiian.....	26,041	24,120	.....	1,921	.....	7.34
Part-Hawaiian..	12,506	14,800	2,294	.....	18.34	.....
Portuguese.....	22,303	23,650	1,347	.....	6.04	.....
Spanish.....	1,990	4,210	2,220	.....	111.56	.....
Porto Rican....	4,890	5,080	190	.....	3.89	.....
Other Caucasian..	13,029	16,000	2,971	.....	22.03	.....
Chinese.....	21,674	21,770	96	.....	.44	.....
Japanese.....	79,674	93,136	13,462	.....	16.92	.....
Filipinos }	15,220	.....	.....	.....	.....	.....
All others }	7,964	.....	12,526	.....	157.28	.....
	.....	5,270	.....	.....	.....	.....
	190,071	223,256	35,106	1,921	18.47	1.00
Army and Navy	1,838	9,600	7,762	.....	422.31	.....
Total.....	191,909	232,856	42,868	1,921	22.34	1.00

The rapid increase of the Oriental races, comprising over 60 per cent. of the population deserves notice. The Japanese now claim the Koreans as their subjects, so the Japanese total must be changed to 97,636. Their percentage of the total births, 1908 to 1915, was 55.17 per cent.

PRODUCTS AND INDUSTRY

The Islands are to a great extent mountainous and volcanic and the area of arable land is relatively quite

limited, but the soil is highly fertile and productive. A variety of crops can be raised, but the two which have proved to be commercially profitable are sugar and pineapples. The export of sugar for the year ended June 30, 1915, was 640,459 short tons, valued at \$52,953,099, against an export for the year 1914 of 557,445 tons, valued at \$33,194,912. The export of pineapples for the year was in value \$6,319,129, against an export for the year 1914 to the value of \$3,274,995. Other crops raised, principally for domestic consumption, are coffee, honey, hides, sisal, bananas, rice, wool, tobacco, cotton and rubber.

In 1910 the Territory had 500 industrial establishments employing a total of 7,572 persons. The capital employed was \$23,875,000 and the value of the output was \$47,404,000.

BANKS

There are 19 banks in operation which had commercial deposits on December 31, 1915, of \$17,418,103, and savings deposits as of June 30, 1915, of \$7,736,569, a total of \$25,154,672.

The distribution of savings bank accounts by races on June 30, 1915, is shown by the following table:

SAVINGS ACCOUNTS—DISTRIBUTION BY RACES

Race	Population 1915		Accounts			Deposits		
	Esti- mated	%	Number	%	Aver- age	Total	%	
Japanese ..	93,136	40.03	3,420	15.43	\$ 91.66	\$ 313,494.96	4.05	
Chinese . . .	21,770	9.34	1,935	8.73	307.97	595,922.08	7.71	
Hawaiians	38,920	16.70	4,228	19.08	106.73	451,251.23	5.84	
Portuguese	23,650	10.15	3,367	15.19	301.28	1,014,400.08	13.11	
All others .	55,380	23.78	9,216	41.57	581.76	5,361,500.97	69.29	
Total .	232,856	100.00	22,166	100.00	\$349.03	\$7,736,569.32	100.00	

These figures, when considered in connection with the figures for population, are of great interest.

COMMERCE

Following is a statement of imports and exports at the end of the first year after organization of the Territory and at five-year periods thereafter:

IMPORTS

Years June 30	United States*	Foreign Countries	Total
1901.....	Not Kept	\$2,826,633	\$2,826,633
1905.....	\$11,703,519	3,014,964	14,718,483
1910.....	20,531,913	4,606,334	25,138,247
1915.....	22,772,632	3,292,223	26,064,855

EXPORTS

Years June 30	United States	Foreign Countries	Total	Total Imports & Exports
1901.....	\$27,935,885	\$117,958	\$28,053,843	\$30,880,476
1905.....	36,114,985	59,541	36,174,526	50,893,009
1910.....	46,183,649	302,763	46,486,412	71,624,659
1915.....	62,306,507	61,849	62,368,356	88,433,211

*These figures include specie for 1901, but since 1903 most of the specie has been handled through the post office by registered mail, and the amount thereof is not included in this table.

Next to those from the United States, the largest imports are from Japan, very largely rice and food stuffs preferred by the Japanese population. These amounted in 1914 and 1915 in round figures to \$2,500,000, or about 40 per cent. of the "other" imports.

As Hawaii is a territory of the United States, the customs receipts, of course, all go to the parent government. These receipts from the organization of the Territory, June 14, 1900, to June 30, 1915, amounted to \$20,630,122, an annual average of \$1,372,306.59.

FINANCES

The tabular statements on the following pages are of interest. The greater part of the revenues of the cities and counties of Hawaii are collected by the Territory and paid over to them to meet their expenses. The Territory in turn receives back from them the cost of assessing and collecting taxes and the proportion chargeable to them of the interest and sinking funds on territorial bonds issued to provide for local requirements. No county or municipal bonds have ever been issued.

Following is a statement showing the total revenues (including cash balances at beginning of year), expenditures, and net cash balances at close of the year during the past nine fiscal years:

RECEIPTS AND DISBURSEMENTS

Years June 30	Revenues	Disbursements	Net Cash Balances
1907....	\$3,051,955.37	\$2,738,479.35	\$313,476.02
1908....	3,017,964.83	2,852,119.35	165,845.48
1909....	3,443,264.00	3,160,875.81	282,388.19
1910....	4,134,053.83	3,435,082.87	698,970.96
1911....	4,391,069.65	3,730,765.16	660,304.49
1912....	4,849,011.43	4,224,795.07	624,216.36
1913....	5,596,075.45	4,908,354.46	687,720.99
1914....	5,009,590.61	4,687,545.21	322,045.40
1915....	4,905,249.28	4,490,371.47	414,877.81

Since its organization the Territory has paid and retired \$938,000 of its bonds besides refunding \$600,000 of 5 per cent. bonds at 4 per cent.

The payment of all bonds, both principal and interest, constitutes a charge upon the consolidated revenues of the Territory.

ASSESSMENTS OF REAL AND PERSONAL PROPERTY

Fiscal year	Real Property	Personal Property	Total
1901....	\$58,547,890	\$62,625,038	\$121,172,928
1905....	67,509,036	66,415,064	133,924,100
1910....	75,792,523	74,475,944	150,268,467
1911....	77,887,826	76,696,206	154,584,032
1912....	90,889,057	85,945,744	176,834,801
1913....	93,853,810	81,347,351	175,201,161
1914....	91,050,895	70,136,331	161,187,226
1915....	99,186,323	77,414,899	176,601,222
1916 (Estimated) .....	.....	.....	203,000,000

NOTE. The bulk of the property in the Territory is used for the cultivation of sugar and pineapples, and in assessing a plantation as an "Enterprise for Profit," the law requires that, "there shall be taken into consideration the net profits made by the same, also the gross receipts and actual running expenses; and where it is a company being a corporation whose stock is quoted in the market, the market price thereof, as well as all other facts and considerations which reasonably and fairly bear upon such valuation."

Owing to the low price of sugar in 1913, the assessments for 1914 were considerably lowered, but as the price of sugar was high for 1914 and 1915, the assessments for these years were increased. That of 1916, just completed as to plantations, has added \$27,000,000 to their assessed value. Hence, the total assessments rise and fall relatively, according to net income.

ASSESSED VALUE OF REAL AND PERSONAL PROPERTY
FOR 1915 CLASSIFIED BY RACES

	Real Property	Personal Property				
Taxpayers	Number tax- pay- ers	Assessed Value	Number tax- pay- ers	Assessed Value	Total Assessed Value	Per- cent- age
Corporations, firms, etc.....	800	\$57,531,821	794	\$66,930,707	\$124,462,528	70.48
Anglo-Saxons.....	3,200	20,971,922	2,206	3,365,505	24,337,427	18.77
Hawaiians.....	5,741	13,701,943	1,855	1,477,088	15,179,031	8.60
Chinese.....	889	2,084,356	1,928	2,224,647	4,309,003	2.44
Portuguese and Spanish.....	2,382	3,894,078	1,499	593,937	4,488,015	2.54
Japanese.....	845	1,002,203	2,491	2,823,015	3,825,218	2.17
Total.....	13,807	\$99,186,323	10,773	\$77,414,899	\$176,601,222	100.00

BONDED DEBT

May 15, 1916

Date of Issue	Amount Outstand- ing	Interest Rate P'ble	Maturity Red'ble After	Sale P'ble	Place Price	Place of Sale
Oct. 4, 1905.	\$800,000	4 A & O	Oct. 1910	1920	101.375	Honolulu
Jan. 2, 1906.	750,000	3½ J & J	Jan. 1911	1921	98.125	New York
Oct. 1, 1907.	294,000	3½ A & O	Oct. 1912	1922	98.15	Honolulu
Oct. 1, 1909.	200,000	3½ A & O	Oct. 1914	1924	98.25	Honolulu
Aug. 1, 1911.	1,500,000	4 F & A	Aug. 1931	1941	101.5875	New York
Sept. 3, 1912.	1,500,000	4 M & S	Sept. 1932	1942	100.5887	New York
Sept. 15, 1914.	1,430,000	4 M & S	Sept. 1934	1944	100.01	New York & Honolulu
May 15, 1916.	1,750,000	4 M & N 15 15	May 1936 15 15	1946	100.	New York

Total..... \$8,024,000 Equivalent to 3.95% of assessed valuation.

The above bonds were all issued for Public Improvements except the issues dated October 4, 1905, and May 15, 1916, which were issued for refunding.

Bonds are all issued in coupon form without provision for registration, except the 1916 issue, which may be registered as to principal, the coupons remaining payable to bearer.

Denomination : \$1,000; except the 1914 issue \$100, \$500 and \$1,000, and the 1916 issue \$500 and \$1,000.

Principal and interest are payable at the Treasurer's Office, Honolulu; or at United States Mortgage & Trust Company, New York.

Neither the Territory nor its predecessors have ever defaulted in the payment of any interest or principal of the public debt.

LEGAL PROVISIONS IN REGARD TO DEBT

United States Statutes

Act April 30, 1900, as amended by Act May 27, 1910 (44 Statutes 443 Section 4) provides as follows:

Purposes for Which Bonds may be Issued

No debt shall be authorized or contracted by or in behalf of the Territory, or any political or municipal corporation or subdivision thereof, except to pay the interest on the existing indebtedness, to suppress insurrection, or to provide for the common defense, except that in addition to any indebtedness created for such purposes the legislature may authorize loans by the Territory, or any such subdivision thereof, for the erection of penal, charitable and educational institutions, and for public buildings, wharves, roads, harbor and other public improvements.

Maximum Debt Authorized

The total indebtedness incurred in any one year by the Territory or any such subdivision shall not exceed 1 per cent. of the assessed value of the property in the Territory or subdivision, respectively, as shown by the then last assessments for taxation, whether such assessments are made by the Territory or the subdivision or subdivisions.

The total indebtedness of the Territory shall not at any time exceed 7% of such assessed value of property in the Territory; and of a subdivision shall not exceed 3% of such assessed valuation of property in the subdivision.

Refunding

Nothing in this act shall prevent the refunding of any indebtedness at any time.

No Loan on Credit of Public Domain

Nor shall any such loan be made upon the credit of the public domain or any part thereof.

Term of Bonds

Nor shall any bond or other instrument of any such indebtedness be issued unless made payable in not more than 30 years from the date of the issue thereof.

President of the United States Must Approve

Nor shall any such bond or indebtedness be issued or incurred until approved by the President of the United States.

Hawaiian Statutes

Act of April 25, 1903, as amended.
An Act to Provide for Public Loans.

Synopsis

Total authorized issue, \$9,000,000.

Payable in gold coin of the United States.

Must be authorized by an act of the legislature defining purpose.

Interest not to exceed 5 per cent., payable semi-annually.

Redeemable and payable at such time or times as will comply with the Act of Congress approved April 30, 1900, or any amendments thereof.

Exempt from any and all Territorial taxes.

A charge upon the consolidated revenues of the Territory.

Denominations, place in which principal and interest payable and method of redemption to be determined by the Treasurer with the approval of the Governor.

No bonds may be issued at less than 2 per cent. below their par value.

Bonds shall be offered by public advertisement; or the Treasurer may, with the approval of the Governor, accept any bid without public advertisement for tenders, provided such bid shall be above the figure of the last sale.

Refunding

Extracts from Chapter 88, Revised Laws 1915

The Treasurer is authorized and empowered, with the approval of the Governor, to issue from time to time negotiable refunding bonds of the Territory of Hawaii, in an amount or amounts not exceeding at par value the bonded indebtedness to be thereby refunded.

The bonds which may be refunded under the provisions of this chapter shall include among others any bonds which are payable or redeemable at the option of the Territory, or which the Territory otherwise then has the right to call, pay, or redeem, or any bonds of the Territory the holders of which may consent, may be paid or refunded, even though such bonds be not matured or callable or redeemable.

All such bonds shall be exempt from any and all taxes whatsoever, and the payment of the principal and interest thereof shall be a charge upon the consolidated revenues of the Territory.

In the discretion of the Governor and Treasurer, said refunding bonds may be exchanged at not less than their par value for an equal amount of the bonds to be refunded under the provisions of this chapter at not more than their par value, or said refunding bonds may be sold as provided by this chapter and the proceeds therefrom applied solely to the payment of the bonds to be refunded under the provisions of this chapter. All bonds so refunded and redeemed by the issue and sale or issue and exchange of refunding bonds as herein provided for shall be cancelled.

Sinking Fund

Chapter 89, Revised Laws, 1915

SECTION 1182. How made; sinking fund account. The Treasurer of the Territory is authorized and empowered to establish as a special deposit in the treasury of the Territory a sinking fund with which to pay any present or future bonded indebtedness of the Territory, and on the second interest paying date of any Territorial bond issue hereafter made, whether the same is a refunding bond issue or otherwise, and on the same date each year thereafter until all of the bonds of such issue have been called in, he shall transfer from the current receipts of the Territory and deposit to the credit of said sinking fund such a sum of money that the aggregate of such sums so annually deposited will, compounded annually at the rate of interest specified in the bonds of such issue, amount at the expiration of the term for which said bonds are issued, to the full face value thereof.

The Treasurer shall also deposit to the credit of said sinking fund, immediately upon receipt thereof, all compensation received from any of the counties or municipal divisions of the Territory in payment for public improvements transferred by the Territory to said counties or municipal subdivisions of the Territory.

The Treasurer shall also deposit to the credit of said sinking fund, immediately upon the receipt thereof, all receipts from government land sales made by the Commissioner of Public Lands.

Except as provided by this chapter, such sums so deposited as aforesaid shall be used for the redemption or purchase of any outstanding Territorial bonds and shall not be held exclusively for the redemption or payment of the bonds used as a basis for the annual deposits. * * *

The Auditor of the Territory shall open and keep in his books a separate and special account of this fund, which shall be known as the sinking fund account and which shall at all times show the exact conditions thereof.

SECTION 1183. Redemption, notice by advertisement. Whenever the sum on deposit to the credit of said sinking fund is sufficient, the Treasurer may redeem one or more bonds; provided, however, that prior to such redemption he shall advertise in a newspaper of general circulation published in Honolulu, and in places other than Honolulu where interest payments upon said bonds are made, not less than once a week for three successive weeks that he is prepared to pay such bonds, together with all interest accrued thereon, giving the numbers, issue, date, date of payment, the date interest will cease, and such further information as may be required by the terms of the said bond or any law of the Territory of Hawaii. If said bonds so sought to be redeemed as aforesaid are not presented for payment or redemption on or before the payment date specified in said advertisement, the amount due thereon shall be held exclusively for the payment of said bonds whenever presented. All redemptions shall be made as provided by law and no notice of redemption shall be required other than that by publication as hereinbefore provided.

SECTION 1184. Purchase of bonds, when. Provided it can be shown to be to the financial advantage of the Territory, the Treasurer of the Territory, by and with the consent of the Governor, is authorized to buy in the open market any of the outstanding bonds of the Territory of Hawaii not yet redeemable whenever there are any funds to the credit of the sinking fund account in excess of the amount needed for the redemption of any bonds when redeemable, the expense of such purchase over and above the purchase price of said bonds to be a proper charge against this fund.

SECTION 1185. Temporary use of fund to pay warrants. The Treasurer of the Territory is authorized by and with the consent of the Governor of the Territory, to make temporary use of any part or portion of said sinking fund not held for the payment of bonds legally called in, for the purpose of paying the warrants drawn on the treasury for current indebtedness of the Territory, whenever the current cash in the Territorial treasury is not sufficient to pay the same; provided, however, that all sums so taken shall be redeposited to the credit of said sinking fund not more than fifteen days after the next succeeding delinquency date of property and income taxes.

SECTION 1186. Transfer of other funds to sinking fund. All funds available for the payment of bonded indebtedness under the

provisions of Section 373 shall be transferred from time to time to the sinking fund account herein created and be subject to all the conditions of this chapter.

EXEMPTION FROM TAXATION

Principal and interest are exempt from any and all taxes of the Territory. Exempt from Federal Income Tax. Exempt from Federal stamp duties.

The Treasurer of the Territory of Hawaii, when inviting proposals for the 4 per cent. Public Improvement bonds under date of September 1, 1914, and again when inviting proposals for \$1,750,000 Refunding Bonds in 1916 made the following statement:

"These bonds are exempt from taxation under the Federal income tax law and by a recent decision of the United States Supreme Court are exempt from taxation by any State in the United States or any municipal or political subdivision of any such State, the same as bonds or other obligations or securities of the United States." (See Farmers & Mechanics Savings Bank of Minneapolis vs. State of Minnesota, 232 U. S. Supreme Court 516, Feb. 24, 1914.)

BOND ISSUES MUST BE APPROVED BY PRESIDENT

While the United States is not liable for the bonds of Hawaii, it does determine, however, under what conditions debt may be incurred, as no bonds may be issued unless the issue is approved by the President.

SPECIAL MARKETS

Bonds of the Territory of Hawaii are legal investments for the savings banks of the States of New York, Michigan, New Hampshire and Rhode Island, and for trust funds in New York.

The United States Treasury Department authorizes the statement that until further notice these bonds will be accepted as security for public deposits at their market value, but not exceeding their par value, when further deposits are made. A legal investment as security for Postal Savings funds.

GENERAL CONDITIONS

The Report of the Governor of Hawaii for the year ended June 30, 1915, draws attention to seven problems which the Territory is facing. These problems may be briefly summarized as follows:

First: Public lands.

Nearly all of the land designated as "arable agricultural land" is under leases long since made, but beginning to expire in 1917. A considerable portion of these lands is valueless because of the difficulty of obtaining water to irrigate them. The area of lands of value is stated to be 1,142,456 acres. These lands are divided into forest lands, 565,015 acres valued at \$2,-750,000, and lands suited to agriculture, 577,440 acres valued at \$6,489,192. A very large proportion of the agricultural lands is however put down as not cultivable but adapted only to use as pasture. The total arable, cultivable land belonging to the government comprises 59,044 acres.

Second: Population.

This has already been referred to under the heading of Population and Area. It is interesting to note that since 1910 the total increase in population had been 21.34%. The increase in Army and Navy accounted for 4.04%, the increase in the Civilian population for 17.30%. This increase is divided as follows: Japanese, 7.01; *Hawaiians, 1.00; Portuguese, .70; Chinese, .05;

*Decrease.

American-British-German-Russian, 1.55; part Hawaiian, 1.20; Porto Rican, .10; Spanish, 1.16; others, 6.53. The rapid increase of the Oriental races is noticeable.

Third: Birth increase and rate.

Attention is called to the fact that although the proportionate increase to the total births would indicate Japanese births for 1915 should have totaled 2,442, their actual increase was 4,606. The Portuguese rate indicated a ratio of 552, while the actual was 883.

Fourth: Food supply.

In this connection attention is drawn to the fact that while green and uncured products can be grown, it has been found difficult to date to produce commercially, except in a restricted degree, those of a character which require curing, such as the world generally depends on.

Fifth: Education.

Much attention is given in the Territory to the matter of education. Out of 36,529 children enrolled 17,931 were Orientals, 8,360 Hawaiians or Part Hawaiians, 7,631 of the Latin races and 1,894 Saxon and Germanic. Of the remainder the largest portion was Filipino.

Sixth: Business control.

In the number of independent businesses, not in volume, the Japanese exceed all other nationalities. Then come the Chinese, then American, British and German.

The seventh and last problem referred to by the Governor, that of Commerce, is not elaborated because the necessary data was not available at the time when the report went to press, but a study of the statements of imports and exports, together with a study of a statement in regard to the agricultural development of the

Territory which was submitted to Congress under date of April 8, 1915, brings out very strongly the dependence of the country upon sugar and pineapples and the necessity therefore that in considering tariff legislation Congress should carefully keep in mind the interests of this Territory, which is of such vital importance to the parent country, lying as it does, at what is known as the "Crossroads of the Pacific."

Our analysis of the business and industries of Porto Rico and of the Philippine Islands has similarly indicated the need of proper consideration of the fact that both of these countries are also large producers of sugar. The action of Congress in reducing the tariff on sugar would have been most disastrous to these three insular possessions if the European war had not brought about conditions in the sugar business which for the time being counterbalanced the effect upon the industry of these islands of the proposed plan of putting sugar on the free list. The danger of such legislation remaining permanently on the statute books seems happily now to be passed.

PHILIPPINE ISLANDS

CAPITAL MANILA

HISTORICAL

The Philippine Islands were discovered by the great explorer, Magellan, in March, 1521. He called them the Islands of St. Lazarus. It was not until 1542 that an expedition was sent to the islands by Spain. The only permanent result from this expedition was the giving to the group of islands the name of Islas Filipinos in honor of the Prince, later King Philip II. The permanent conquest of the islands was achieved by Legaspi between 1565 and 1572. The city of Manila was founded in June, 1571, and became the seat of Spanish power.

The Islands continued uninterruptedly under Spanish rule until Admiral Dewey sailed into Manila Bay on May 1, 1898.

In the early days, and in fact to a large degree down to the time of the American occupation, the dominating influence in the Philippines was the Roman Catholic Church. The Philippines also afforded a base from which missionaries labored in China and Japan. "The Christian population of the islands formed a unique community, the only large body of Asiatics permanently converted to Christianity in modern times."

Conditions were comparatively peaceful and stable until the early years of the nineteenth century. From 1814 on, however, the agitations in Spain and the disaffection of the South American states tended to undermine the oldtime stability in the Philippines. The monastic orders were more and more pervaded with the mercantile spirit.

Finally with the opening of the Suez Canal and the consequent growing contact with Europe and the growth of education, the people became dissatisfied with Spanish domination and in 1896 this dissatisfaction culminated in an insurrection of important magnitude.

The insurrection was finally put down, but when the American navy arrived in 1898 conditions were ripe for a change of government. The American naval and military authorities availed of this state of affairs to hasten the reduction of the country under American control.

The revolutionists, however, turned upon the Americans and it was not until March 23, 1901, that Aguinaldo, their leader, was captured. The complete pacification of the Islands did not finally occur until July 4, 1902.

In the meantime, by the Treaty of Paris, signed December 10, 1898, between Spain and the United States, Spain ceded the entire archipelago to the United States in consideration of the payment of the sum of \$20,000,000. After that date the Islands were in part under the control of the United States Army and in part were governed by a Commission appointed by the President.

The military government remained supreme in any given territory until the Commission assumed jurisdiction. On July 4, 1901, William H. Taft, president of the Commission, was inaugurated civil governor. On September 1, 1901, a complete civil central government was established.

An act of Congress approved July 1, 1902, approved and confirmed the orders of the President for the establishment of civil government and provided a comprehensive system of government.

This act defined citizenship as including all inhabitants of the Philippines who were subject to Spain, residing in the Philippines when the treaty was ratified

on February 6, 1899, who had not elected to retain their Spanish citizenship.

The act provided for a legislature with biennial sessions. The Commission constituted the upper house. The lower house, called the Philippine Assembly, was composed of elective members distributed among the regularly organized provinces.

The general supervision of all insular affairs was assigned to the Bureau of Insular Affairs, under the jurisdiction of the War Department. This arrangement still continues.

Under American supervision a stable government has been established. The judicial system has been freed from abuses. Matters of sanitation and education have been markedly improved. Railroads and vehicle roads have been built. The money of the islands has been put on a non-fluctuating basis.

An agricultural bank was established in 1908 to relieve farmers from the burden of the high rates of interest charged by private lenders.

A postal-savings system has been inaugurated.

Legislation passed at the last session of Congress gave the Filipinos a much larger participation in the government, provision having been made for the election from among the Filipinos of the members of the upper house. It is expected that ultimately the government will become autonomous. Those who are best informed in regard to Philippine matters and who are among the best friends of the Filipinos have serious misgivings as to the wisdom of absolutely turning the government of the Islands over to their people for a long time to come. They fear that the mass of the people are not yet fitted for self-government and that serious results might follow from the withdrawal of

American co-operation in government and American protection from outside aggression.

THE PEOPLE

The population of the Philippine Islands is estimated by the Bureau of the U. S. Census for January 1, 1917, at 8,879,999, of which number about one-eighth belong to the so-called "non-Christian" tribes.

It is estimated that about 99% are native born. The larger portion of the small number of foreign born are Chinese; Americans, Spaniards, British and Germans constitute the bulk of the remainder. About one-half of the foreign born are in Manila.

The first inhabitants of the islands are supposed to have been the pigmy blacks, known as Negritos. Their descendants still survive. They are very similar to the bushmen of South Africa and to the Australian blacks. They are said to be incapable of civilization.

Following the pygmies came a people of Malayan blood. They were possessed of metal tools and weapons and soon became the dominating race. They did not come all at once, but in waves of immigration. These invaders were head hunters. They did not settle in tribes, but in small communities, which were at war not only with the Negritos but with each other.

They spoke many different languages or at least dialects, and this is the case even today. On account of their head-hunting proclivities, there was no social intercourse between the several tribes and therefore there was no opportunity for the harmonization of the numerous dialects.

About the year 1400 A.D. Mohammedan Malays began to settle in the southern Philippines. Soon they came into possession of firearms and from that time on became the most aggressive people in the Islands.

The Spaniards spread the Christian religion over the northern islands. There is a sharp line of cleavage between the Roman Catholics comprising about seven-eighths of the population and the pagan and Mohammedan tribes.

The "non-Christian" tribes are some twenty-seven in number, differing in the dialects spoken and in other characteristics. Reference has already been made to the Negritos and the Moros, or Mohammedans. The latter have a high-grade of intelligence, but they are religious fanatics. If the firm hand now held over them were withdrawn they would doubtless again terrorize the entire archipelago.

The pagan tribes cannot all be called wild. Some of them are said to be quite as gentle, and as highly civilized, as are their Christian neighbors.

The people of a number of the tribes, however, were fierce, warlike, unsubdued head-hunting savages at the time of the American occupation. There has been a great improvement in their conduct, but, says Dean C. Worcester, the well-known authority on the Philippine peoples, upon whose statements these paragraphs are chiefly based, "the blood lust of these sturdy and brave fighters is only dormant." He says that "a steady hand must be held over them for years to come."

Doctor Worcester states that of the so-called Christian "tribes" there are eight principal groups. The word tribes in describing them is used simply to indicate that they are descendants from tribes or peoples which existed in separate entities in the distant past.

In speaking of the Filipinos these, the civilized peoples, are the ones to whom the designation properly applies.

The very large majority have been brought up in the Roman Catholic faith.

In physical appearance and dress they resemble each other closely.

They are alike in dignity of bearing, in their sobriety, their general hospitality, their kindness to the old and feeble, their love of children and their eagerness to obtain for them educational advantages, their fondness for music, their patience in the face of adversity and their respect for authority when their passions are not played upon or their prejudices aroused.

They are quick to learn, they can follow a leader, but lack the qualities of leadership.

They have no common language. They cannot be reached as a whole. They do not respond as a whole. They do not, and will not for years to come, constitute a people.

In all these respects Doctor Worcester says they are like the other Malay races. In this connection he quotes from Colquhoun's "The Mastery of the Pacific": "No Malay nation has ever emerged from the hordes of that race, which spread over the islands of the Pacific. Wherever they are found they have certain marked characteristics and of these the most remarkable is their lack of that spirit which goes to form a homogeneous people, to weld them together. The Malay is always provincial; more, he rarely rises outside the interest of his own town or village."

Doctor Worcester, from an intimate knowledge of the Philippines and of the Filipinos spreading over a period of nearly thirty years, gives it as his unqualified judgment that "the Filipinos are not yet fit to govern themselves, much less to govern the Moros and other non-Christian tribes." He says further: "Philippine independence is not a present possibility, nor will it be possible for at least two generations. Indeed if by the end of a century we have welded into a *people* the de-

scendants of the composite and complex group of human beings who today inhabit the islands, we shall have no cause to feel ashamed of our success."

Again, "I am firmly convinced that the Filipinos are where they are today only because they have been pushed into line, and that if outside pressure were relaxed they would steadily and rapidly deteriorate."

On the other hand it is only fair to note the opinion of the present Governor General, Francis Burton Harrison, as given in his report for the year 1915. Under date of July 1, 1916, Governor Harrison writes:

"The administrative machinery of the government has been in smooth and successful operation during 1915 and the personnel has worked harmoniously and with spirit. The old antagonism between American and Filipino officials and employes has almost disappeared, and throughout the Islands a better feeling between Americans and Filipinos is most apparent.

"It is the fashion for many critics of the races which dwell in the Tropics to generalize about the inhabitants of these regions, and to deny them the capacity in government affairs with which more northern races are endowed. In the case of such of these critics as are foreigners, their observations are usually based upon a condition of affairs in countries or colonies where the tropical peoples are denied all real participation in the affairs of state. The capacity of the people is unknown because it has never been tried. In the Philippines, however, the avowed American policy has always been to give the inhabitants of the Islands an increasing control of their own public affairs to qualify them for complete self-government and ultimate independence. This policy was dictated by American ideals and constitutional requirements, and is amply justified in each succeeding concession of self-government to the Filipinos. The people of these Islands are as a whole far in advance of the people of surround-

ing tropical countries, as might be expected from the only Christian Oriental race, a privilege which has incidentally given the Filipinos a western or European outlook upon many of the features of modern life. The rapid spread of modern education throughout the Islands has also been a most important factor.

"Visitors to the Islands, therefore, who come imbued with ideals of colonial government as practised by European countries in the Tropics, are obliged to rearrange all their preconceived prejudices if they wish to make an intelligent study of the Filipino people. It is unfortunately true, moreover, that many Americans who have never had an opportunity of visiting the Philippines personally have acquired a notion that these Islands are inhabited only by savage tribes of head-hunters, with little conception of the fact that only one-eighth of the population is non-Christian, and that even among these less advanced peoples of the remote mountain districts head-hunting has now ceased and elementary education has been introduced, following the opening of a network of roads and trails.

"But every year now it becomes less and less necessary to theorize about the capacity and endowments of the Filipinos. To one who will take the trouble to make his own observations ample opportunity is afforded for accurate judgment from the actual state of Filipinization in the government service to-day.

"There are now 44 Provinces in the Philippine Islands, of which all but 7 are under Filipino control, for the most part with elective officials. In these 44 Provinces and 13 sub-Provinces there are 173 Filipino and 36 American officials, of which latter number 14 are provincial treasurers and no longer members of the provincial boards. Exclusive of the cities of Manila and Baguio there are 756 municipalities and 83 townships in the islands, governed entirely by Filipino officials, of

which there are 13,138. There are, however, 89 American justices of the peace or notaries public, who, of course, have no administrative functions or powers. The Filipino municipal presidents and councils are chiefly elective officers. Of these 13,138 Filipino municipal officials, during 1915 only 101 were found guilty of serious misconduct, either upon administrative investigation or in court action, of which number only 16 convictions were for malversation or breach of trust, forgery, falsification of public documents, or extortion.

"In the insular government itself the Legislature was as heretofore composed of an upper house or Commission, which, during the session of 1914-15, consisted of 4 Americans and 5 Filipinos, and during 1915-16 of 2 Americans and 5 Filipinos, while the lower house or Assembly consists of 81 members, all Filipinos.

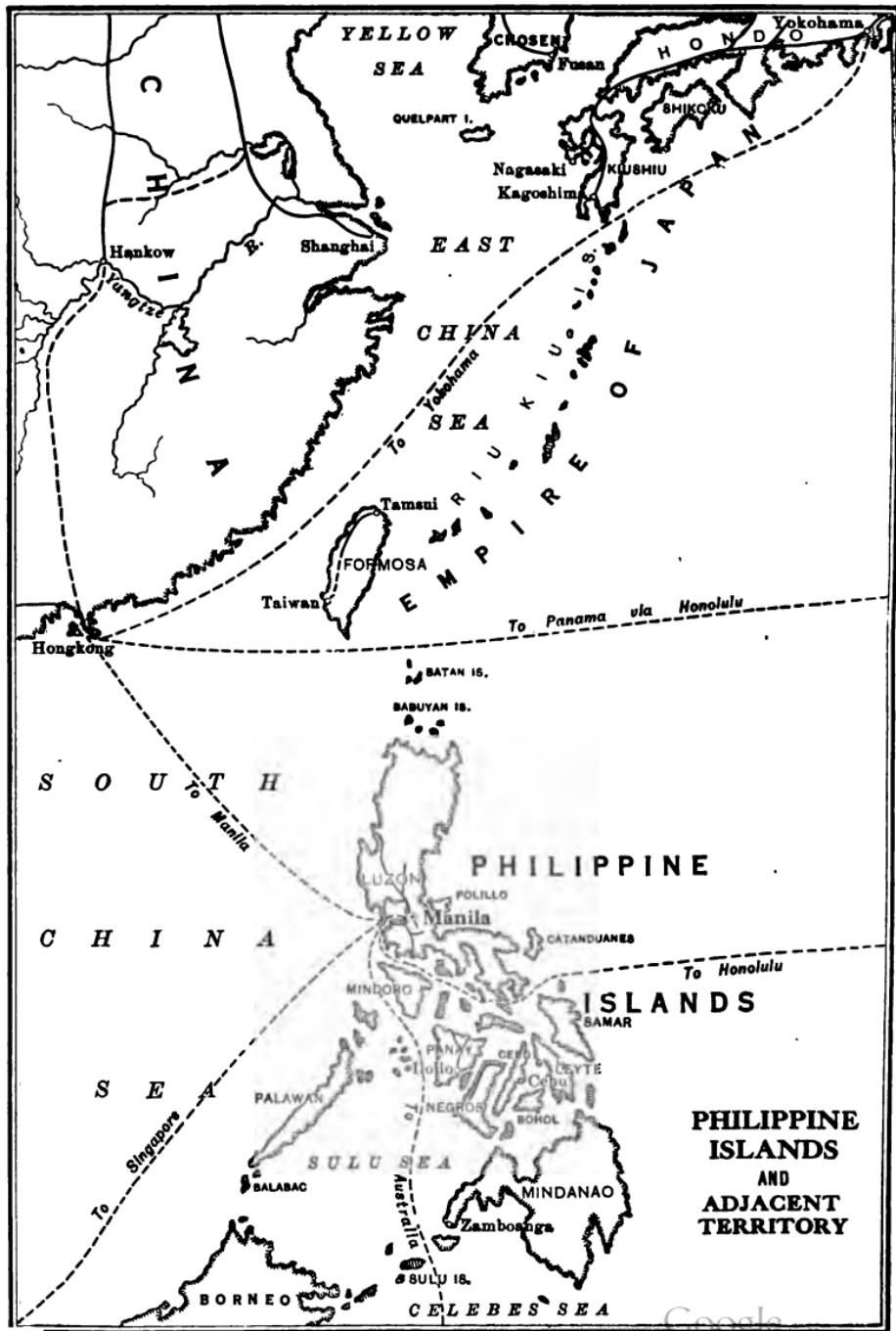
"The supreme court is composed of a Filipino chief justice and 4 American and 2 Filipino associate justices. The courts of first instance have 14 American and 22 Filipino judges.

"Of the four administrative heads of department during most of the year 1915 a Filipino was Secretary of Finance and Justice and another Filipino acting Secretary of Commerce and Police. A Filipino also acted as Secretary of Public Instruction during the absence of the head of that department in the United States for the first few months of 1915.

"Of the chiefs of bureaus and offices during 1915, 17 were Americans and 9 Filipinos. Of the assistant chiefs 13 were Americans and 9 Filipinos.

"The report of the director of civil service shows that on July 1, 1915, there were 1,935 Americans and 7,881 Filipinos in the Philippine civil service.

"The results of the operation of this organization, which is in a stage of gradual transition from a govern-



Location of Japan distorted in order to show relation to Philippine Islands

ment of Americans assisted by Filipinos to a government of Filipinos aided by Americans, are set forth in the annual reports."

This somewhat lengthy statement of the genesis and character of the people of the Philippine Islands is justified because of the most important bearing which it has upon the status of the present debt of the Government of the Philippine Islands. As is shown at length in a later chapter, this debt was incurred by the Philippine Commission, constituted by the United States Government. The manner of its presentation and its management were and are such as to lead investors in these bonds to understand that the United States Government, while not directly responsible for the debt, yet is obligated to see that proper provision is made for its payment, principal and interest. Under a continued American protectorate there is no question as to the intrinsic value of these bonds. No bonds could be better secured.

When the time comes to grant the Filipinos complete independence, the United States, as a matter of good faith with the holders of these bonds issued under its auspices, should retain control of the customs, upon which the payment of the principal and interest of the present debt should be made a first charge, until that debt with interest is fully liquidated.

Appropriate provision should also be made to protect the holders of the bonds of the Manila Railway-Southern Lines and those of the Philippine Railway, which bonds have been guaranteed as to interest by the Philippine Government.

LOCATION, TOPOGRAPHY AND NATURAL RESOURCES

The Philippine Islands lie between 5° and 22° North Latitude and 117° and 127° East Longitude. They com-

pose an archipelago forming the most northern group of islands in the Malayan or Eastern Archipelago. They lie wholly within the tropics. The archipelago is bounded on the west by the China Sea and on the east by the Pacific Ocean.

Manila, the capital, is 8,100 miles from San Francisco, 6,400 miles from Seattle, 9,400 miles from Panama. It is 600 miles from Hong Kong, 1,400 miles from Singapore, 1,900 miles from Yokohama.

The archipelago numbers 3,141 islands, of which 2,775 contain less than one square mile; 1,095 are large and fertile enough to be inhabited. The important islands are Luzon, on which Manila is located (40,969 square miles), and Mindanao (36,292 square miles). These comprise about seven-tenths of the entire land surface, estimated at 115,026 square miles. The islands of Samar, Negros, Panay, Palawan, Mindoro, Leyte, Cebú, Bohol and Masbate are also important. The total water surface within the area occupied by the archipelago is 705,115 square miles. The islands are quite mountainous. The two great islands present a variety of surface with broad plains and level valleys. Active and extinct volcanoes form a striking feature of many Philippine landscapes.

The islands are well watered. They are favored with what has been described as "one of the most healthful tropical climates in the world."

The flora, birds and fish are of great variety and contain many beautiful species. The islands are poor in indigenous mammals. As would be expected, insect life is much in evidence.

The forests are extensive and contain a great variety of beautiful and serviceable woods.

The mineral resources of the islands are diversified, but so far little developed. Coal and gold are found in almost every island in the archipelago.

INDUSTRIES AND COMMERCE

The industries of greatest present importance are agriculture and fishing. The forest and mineral products are of great potential value, but as already stated, but little development has taken place.

In fact even agriculture is very backward, notwithstanding the great efforts which have been put forth under the American administration to stimulate and improve agricultural operations.

Abaca (Manila hemp) is the most important fibre as well as the most important export product of the islands, composing about 40% in value of the total exports. The value of the exports of hemp in 1913 was \$21,121,084; in 1914, \$19,194,815; in 1915, \$21,339,100.

Copra, or the dried meat of the cocoanut, together with cocoanut oil, afford the next most important group, composing 25% of the total exports. The value of copra exported in 1913 was \$9,545,724; in 1914, \$7,980,270. In 1915 there was a marked increase to \$11,111,554. Cocoanut oil is an increasingly valuable article of export. The export value of this production in 1915 was \$2,820,501. Exports of sugar and tobacco amounted in value respectively in 1915 to \$11,310,215 and \$3,704,934.

Important groups of imports are cotton goods and iron and steel. In 1915 the value of the imports of cotton goods was \$11,791,414; 73% being from the United States. The imports of iron and steel in 1915 amounted in value to \$4,430,000, a falling off from 1914 of \$2,553,000 and from 1913 of \$4,183,800.

Rice is the staple food of the people; while a large quantity is raised, much is imported. The value of the imports of rice in 1915 was \$6,724,270. In former times the Philippines exported rice and may do so again when agricultural development has become more advanced.

General McIntyre, Chief of the Bureau of Insular Affairs, in reporting to the Secretary of War in regard to a trip of inspection made in 1915, makes the following remarks in regard to agricultural conditions:

"As agriculture is almost the exclusive source of wealth in the islands, one must understand that without development in agriculture it is idle to anticipate more than spasmodic development in industrial or commercial lines. Unfortunately the agricultural development has been slow. In the production of rice and sugar we have never exceeded the most prosperous years of Spanish control of the islands, and many of the provinces bear evidence today of not being so productive as they have been in years prior to the insurrection in the Philippines. In other words, these provinces have never recovered." * * *

"Filipino labor must in its great part be employed in agriculture. Unfortunately, this seems the point at which the Filipino laborer is weakest. This is witnessed by the general condition of agriculture in the islands, and is the general complaint of land-owners and those who employ labor directly or who have Filipino tenants. There seems no doubt that this is due mainly to inherited conditions and to the unsatisfactory relation of agricultural employers and landowners to their laborers and tenants. It is observed that in such properties as the San Carlos Milling Company and the Calamba Estates Company there is little or no trouble with labor. The trouble seems to be where the old conditions continue and these are the general conditions, such estates as those mentioned being exceptional." * * *

"It seems clear that to stimulate agriculture in the Philippine Islands it is necessary to bring about a more satisfactory condition of the laborer; that is, the laborer must perform more work and he must perform it in the belief that he is going to be benefited by it. It is not easy to change the customs of ages, and it is not desirable to make revolutionary changes. It is probable that if there were scattered throughout the islands, as there might well be, large estates under modern management, the conditions would be corrected thereby, and possibly it is the only way in which they could be corrected; but it would seem to be the duty of the agricul-

tural bureau of the Philippines and of the labor bureau to investigate carefully conditions of the employment of agricultural labor and to suggest a gradual modification of existing conditions, so as to induce the laborer to work more and the employer to give him a larger benefit from the product of his labor." * * *

The total value of the principal crops in 1914 was \$89,819,835.

Next to the agricultural products, the fishing industry is of the greatest importance in the Philippines. The catch is largely for local consumption. Pearl industries are proving to be important and profitable.

The principal manufactures are cigars and cigarettes; of the former 243,134,000 were made in 1914 and 155,000,000 exported, while in 1915 184,308,000 were made and 70,662,000 exported; of the latter 4,411,923,000 were made in 1914 and 3,859,607,000 in 1915, of which the bulk was consumed locally, although the exports were increasing.

The decrease in the cigar trade in 1915 is attributed chiefly to the falling off of the trade with Europe and Australia, because of the war.

Following is a comparative statement of the value of exports and imports of the Philippines for 1905 and for the seven years from 1909 to 1915, inclusive:

IMPORTS INTO THE PHILIPPINE ISLANDS

YEARS ENDING DECEMBER 31

Year	From United States	From Other Countries	Total
1905.....	\$5,589,946	\$24,460,604	\$30,050,550
1909.....	6,445,331	24,639,088	31,084,419
1910.....	20,068,542	29,650,819	49,719,361
1911.....	19,156,987	28,867,420	48,024,407
1912.....	24,309,010	37,358,941	61,667,951
1913.....	26,676,261	26,636,525	53,312,786
1914.....	24,020,395	24,568,258	48,588,653
1915.....	26,381,069	22,931,115	49,312,184

EXPORTS FROM THE PHILIPPINE ISLANDS
YEARS ENDING DECEMBER 31

Year	To United States	To Other Countries	Total
1905.....	\$14,840,407	\$18,614,367	\$33,454,774
1909.....	14,726,513	20,197,824	34,924,337
1910.....	17,241,725	23,386,738	40,628,463
1911.....	19,827,030	24,760,261	44,587,291
1912.....	22,814,238	31,970,500	54,784,738
1913.....	16,434,018	31,338,938	47,772,956
1914.....	•24,427,710	24,261,924	48,689,634
1915.....	23,653,211	30,159,793	53,813,004

In 1915 the total foreign trade of the Philippine Islands was \$103,125,188. Of the imports, 53.49% came from the United States, while 43.95% of their exports were sent to this country.

In the calendar year 1915 the United States imported goods from the Philippines valued at \$23,653,211. These were mostly crude materials for manufacturers. In the same period exports from the United States to the Philippines amounted to \$26,381,069. Almost 78% of these exports were fully manufactured goods, and another 18% partly manufactured.

In the three years preceding the acquisition of the Islands our trade with them averaged \$4,546,649 imports and \$130,530 exports, a total of \$4,677,179 compared with \$50,034,280 trade between the United States and the Islands in 1915.

Total exports and imports of the United States with the Philippines compare with our trade with Russia

(European) and Austria-Hungary for a series of years as follows:

Years Ending Dec. 31	*Philippines	Russia (European)	Austria- Hungary
1906.....	\$17,203,169	\$32,030,452	\$28,845,780
1910.....	37,897,573	31,151,395	34,263,587
1911.....	41,108,946	38,878,092	37,285,636
1912.....	47,096,506	52,378,387	42,260,792
1913.....	45,817,900	48,288,308	41,327,991
1914.....	46,409,209	34,566,396	28,485,075

In 1915 the Philippine trade was \$49,239,514, Russian \$127,096,000 and Austro-Hungarian \$5,429,000.

Between 1906 and 1913, the last year of normal business before the breaking out of the great war, trade between the United States and the Philippines increased nearly 170%, with Russia in Europe about 50%, and Austria-Hungary about 43%. Some Russian commerce was through the intermediary of Germany and does not show in the figures of direct trade.

It will be seen that the trade of the United States with the Philippines has steadily increased until the Islands have become one of the best customers of the country. It is important to note that trade is reciprocal, the exports and imports between the States and the Islands tending almost to balance.

Taking 1913 as a normal year, before the world's trade had become disarranged by the European conflict, it is interesting to note that the exports of the United States in that year to the Philippine Islands somewhat exceeded the exports to China and Russia. They exceeded by 79% the exports to British India. They exceeded the exports to Austria-Hungary, to Sweden and

*Discrepancies between the figures in this and the previous tables are probably due to different methods of compiling statistics in Washington and in Manila.

Norway, and to Denmark. Put in another way, the exports of the United States to China were in 1913 only 8½ cents a head of the population of China, to India only 5 cents a head, to Russia only 20 cents a head, to Austria-Hungary only 45 cents a head; while to the Philippines they were \$3.20 a head and tending to increase. The business between the United States and the Islands was in 1915 up to that time the greatest in history.

The present indications, however, are that the trade of 1916 will be still greater as, for the nine months of the year so far reported, the total trade between the States and the Islands aggregated \$42,465,000 in 1916 compared with \$39,785,000 for the corresponding months of 1915. In 1916 the exports from the United States to the Islands were \$16,821,000 while the imports were \$25,644,000; almost reversing the figures for the nine months of 1915, when the exports were \$21,420,000 and the imports were \$18,365,000.

With the growth of population in the Philippines there is every reason to expect that with the continuance of American control, which for moral and humanitarian reasons would seem to be wise and right, the trade of the Islands would come to be of ever-increasing importance to the United States.

GOVERNMENTAL ACTIVITIES

The government of the Philippine Islands is necessarily of a so-called "paternal" character.

Through the central government the provinces and cities are financed, that is to the extent that they need to borrow money to carry out plans for development.

Matters of sanitation, education, transportation, roads, maintenance of order, are all to a great degree controlled from Manila.

When the United States assumed control of the Islands, the affairs of the country were in great disorder. Bands of revolutionists were roaming the country, the uncivilized tribes were addicted to cannibalism and head hunting, sanitation was neglected, epidemics of disease were prevalent, there was no general scheme of education, there were practically no roads and only a few miles of railroad, there was no currency system, the banking system was bad, injustice was prevalent.

All these things had to be corrected and to a great extent have been corrected.

A stable government has been established and order restored, even among the uncivilized tribes.

Roads and railroads have been built. The standard of health has been raised and epidemic and malarial diseases greatly reduced. A good scheme of education is in operation and most popular with the people. In 1914 over 23% of the entire expenditure of the Philippine Government was for educational work. The currency has been reformed, as shown in considerable detail elsewhere. Schemes of taxation, fair and just, have been introduced.

In the Philippines the United States is trying out not only the several kinds of governmental activity with which the people in the United States are familiar, but it is also in the banking, telephone and telegraph, railroad, foreign exchange, fidelity insurance, bond and mortgage, and hotel business.

Apparently these various forms of business which up to date have in the United States proper been left to the initiative and action of private corporations are being quite satisfactorily conducted in the Philippines as departments of the government, as more fully explained in the following paragraphs.

BANKING

Banking practices have been reformed. The state to a large extent took over the regulation of the exchanges, taking the purchase and sale of exchange from the banks. This was undertaken in the first instance in order to stabilize the currency, in connection with the operation of the Gold Standard Fund.

In 1908 the Agricultural Bank was established under government auspices in order to afford means to the planters to finance the growing and distribution of their crops. The original capital of the bank was \$500,000. On December 31, 1915, the bank reported that loans outstanding were \$2,541,280.

In addition to loans made to agriculturists through the medium of the Agricultural Bank, the Government has heretofore at times made large loans to sugar planters through the Bank of the Philippine Islands, a private institution, but under government supervision.

Until the establishment of the National Bank this was the only independent bank and the largest commercial bank in the Islands. It has a head office in Manila and branches at Iloilo, Jolo and Zamboanga. A recent report shows capital, surplus and undivided profits aggregating \$5,957,000, deposits \$2,627,000, other liabilities \$4,776,000, circulation \$5,339,000.

There are also branches of the International Banking Corporation ; of the Chartered Bank of India, Australia and China and of the Hong Kong and Shanghai Banking Corporation.

Following is a comparative consolidated statement expressed in pesos, taken from the Governor General's report for 1915, of the resources and liabilities of all the

commercial banks in the Islands at the close of business on December 31, for the years 1915 and 1914.

Total	1914.	1915.	Increase.	Decrease.
Resources .	66,639,866.94	71,542,868.99	4,903,002.05	.....
Loans and Discounts ..	9,887,878.04	9,893,279.08	5,400.99	.....
Overdrafts ..	26,971,809.13	29,690,567.61	2,719,258.48	.....
Current Accounts ..	16,600,869.46	15,615,968.79	.....	984,400.67
Fixed Deposits ..	11,468,664.29	15,042,159.63	8,573,495.34	.....

The Postal Savings Service on December 31, 1915, had 54,434 accounts, to the credit of which was the sum of \$1,615,629.

It having been deemed advisable to consolidate the various banking activities of the Insular Government, the Philippine National Bank has recently been organized under the terms of an act of the Philippine Legislature passed in February, 1916.

The authorized capital of the bank is \$10,000,000. The Insular Government has purchased and is intended always to hold a majority (\$5,050,000) of the stock. Sixty per cent. has been paid in and the remainder is to be paid in annual instalments of 10%. Subscriptions to the minority stock are being received on the same terms from the general public.

The institution is a fully equipped commercial bank, but under governmental control and management. Besides acting as banker for the Government it is doing a regular discount, deposit and foreign exchange business. It is also vested with the function of making loans to agriculturists, and is permitted to issue bonds secured by real estate mortgages properly safeguarded.

The bank is authorized to issue circulating notes but never to exceed 60% of capital and surplus. It is also permitted to issue notes against gold. The bank is authorized to establish branches in the provinces and in the United States. The main office is in Manila. Regu-

larly authorized branches are to be opened soon at Iloilo and at Cebu. Twenty-seven agencies have already been established in as many provincial capitals where deposits are received and exchange sold, and at which application for loans may be filed for transmission to Manila.

The bank has taken over the assets and liabilities of the Agricultural Bank, which will cease operations. The bank is the depositary of the Insular Government, of all municipal governments, including Manila, of the Postal Savings Service and of various other institutions. It will probably manage the finances of the Manila Railroad, recently purchased by the Insular Government.

Foreign exchange business has been undertaken by the bank on a substantial scale.

The organization of the bank is intended not only to take care of the needs of the Insular Government and of the Philippine people at home, but also to assist in the development of foreign trade and especially in the development of trade with the United States and to encourage the investment of capital from the United States in the Islands, with the assurance of stable and reasonable accommodation to all forms of legitimate business. Although only established during the spring and summer of 1916, the bank reported on October 25th resources of 37,000,000 pesos, say \$18,500,000.

POSTS AND TELEGRAPHS

The Philippine Government has established post offices and telegraph offices throughout the islands.

RAILROADS

The railroad situation is one of mixed governmental and corporate ownership. The lines of the Manila Railroad which serves the island of Luzon are about to be acquired by the Government of the Philippine Islands.

The particulars of the sale, and the reasons therefor, as semi-officially explained, are briefly as follows: "By Act of Congress approved February 6, 1905, the Philippine Government was authorized, among other things, to guarantee the interest on bonds of railroad companies that might be authorized by that government to construct and operate railway lines in the Islands, and on July 7, 1906, the Manila Railroad Company was granted concessions in perpetuity for certain lines on the Island of Luzon including the then existing lines of the Manila Railway Company, Limited. In 1909 this company was granted concessions for further lines the Government desired constructed, and under this supplemental concession the lines of the company were divided into the two systems known as the Northern and Southern Lines, the Government guaranteeing interest of 4% per annum on the bonds of the latter, which includes the line to Baguio. To carry on this construction the Manila Railroad Company entered into a construction contract with the Manila Railway Company, Limited, under which the latter accepted the 4% guaranteed bonds of the Railroad Company at par and was required to find the money for the new construction. In 1911 and thereafter the Government, to hasten construction, found it necessary to make large loans to the Railroad Company. With the advent of the European war the construction company found itself unable to raise funds to carry on construction work and faced the necessity of disposing of its property to best meet its indebtedness, or of going into the hands of a receiver, which would inevitably have been followed by a receivership for the Railroad Company. The Government was thus confronted with the alternative of taking over the stock of the Manila Railroad Company at a fair valuation, or, by permitting the latter to go into the hands of a receiver, of sustaining the loss of a considerable part of the sum loaned to

the company. There was also the possible indirect loss to the Islands to be considered.

"After mature deliberation and extended negotiations, an agreement for purchase of the stock of the company was entered into December 18, 1915, and authorized by an act of the Philippine Legislature February 4, 1916. This agreement provides, in substance, that the Government shall acquire all the capital stock of the company for \$4,000,000, 51% payable in cash on the date of sale, and the balance within eighteen months with interest at 5%. It further provides that, with the consent of Congress, since obtained in the new Organic Act for the Islands approved August 29, 1916, the maturity of the outstanding guaranteed bonds of the company may be extended for twenty years or until May 1, 1959, and provision is made for a sinking fund for their retirement to be met from any funds of the company available for such purpose, supplemented so far as necessary by appropriations of the Government.

"The indebtedness of the Railroad Company to the construction company is to be paid in bonds of the Railroad Company, the latter being also required to retire certain outstanding 6% and 7% bonds by the issuance of 5% bonds of equal face value secured by first mortgage on the Northern Lines, and a second mortgage on the Southern Lines, the latter subject only to the mortgage securing the 4% guaranteed bonds and the lien of the Government for the payment of interest guaranteed thereunder."

The Insular Government also guarantees the interest upon the bonds of the Philippine Railway, which serves the islands of Cebú, Panay and Negros.

For details as to the bonded debt guaranteed and statements in regard to the mileage of the railroads reference should be made to paragraphs on a subsequent page.

CURRENCY

Prior to the American occupation silver was the basis of the currency of the Philippine Islands. Although at one time gold and silver were both in circulation, the gold had disappeared from use, having become overvalued as compared with silver.

According to a report made in 1898 by Edward W. Harden, Special Commissioner for the United States, when the American army assumed the supervision of the Philippine affairs the money in circulation consisted of the Mexican dollar of a date previous to 1877 and silver coined for use in the Islands by the Spanish Government. The Banco Español Filipino had outstanding circulating notes based on silver amounting, approximately, to \$2,500,000. It is difficult to tell just how great an amount in silver coins was in circulation. Mr. Harden roughly estimated the amount to have been about \$30,000,000. In addition to this he stated that there were subsidiary coins circulating valued at about \$10,000,000. Altogether coins and notes in circulation aggregated \$40,000,000 to \$45,000,000 silver, equivalent to \$20,000,000 to \$22,500,000 gold.

This circulation was not sufficient for the needs of business at the time of year when the sugar and hemp crops were being moved.

As the importation of Mexican dollars dated after 1877 was forbidden by the Spanish Government the silver coins at times became very scarce and commanded a premium. This premium not uncommonly was as much as 10 or 12%. This led to the smuggling in from China of Mexican coins of a later date than 1877, at a considerable profit to those engaged in the operation.

At the time of the American occupation payments by the United States Government were at first made in gold. The gold coins of course quickly disappeared and

the fluctuations in the exchange rates gave rise to great dissatisfaction. To remedy the currency situation the Philippine Commission proposed that a new coinage be introduced with the peso as the unit. This was the name by which the Mexican dollar and the Spanish dollar above referred to were known.

Under the authority of the act of Congress dated July 1, 1902, as amended by the act of March 2, 1903, the unit of value in the Philippine Islands was established as the gold peso consisting of 12.9 grains of gold, nine-tenths fine; the circulating medium to be the silver peso, weighing 416 grams, nine-tenths fine. This coin was purposely made somewhat lighter than the Mexican silver dollar in order to prevent its rising above the value of the gold peso, i. e. 50 cents in American gold.

On account of an unexpected appreciation in the value of silver, however, this very thing occurred and it was therefore found necessary in 1906 to reduce the amount of silver in the peso to 308.64 grains, .800 fine.

This was permitted by an act of Congress approved June 23, 1906.

Provision is made in the acts of July 1, 1902, and March 2, 1903, for keeping the silver peso on a parity with the gold peso. United States gold coins are declared to be a legal tender at the rate of one dollar for two pesos.

Provision is made for subsidiary silver coins of 50, 20 and 10 centavos and for minor coins of 5 centavos, 1 centavo and one-half centavo.

The intention was to establish a stable, non-fluctuating currency which should not run counter to the customs of the people or radically alter the unit of exchange which had influenced values for many years.

GOLD STANDARD FUND

To insure stability a Gold Standard Fund was created by the Philippine Commission under authority given in the act of Congress approved March 2, 1903, referred to above. The act of the Philippine Commission is dated October 10, 1903. This act creates a bureau of the Insular Treasury to be known as the Division of Currency.

Section 7 of this act provides as follows:

"For the purpose of maintaining the parity of the Philippine silver peso with the Philippine gold peso, and of keeping the currency equal in volume only to the demands of trade, the insular treasurer is authorized and directed"

First—to exchange on demand for Philippine currency or United States currency drafts on the gold standard fund deposited in the United States or elsewhere to the credit of the insular treasurer. Depositaries of the funds of the Philippine Government in the United States are likewise required to sell drafts on the Philippine treasury. The charge for such drafts in either case is limited to $\frac{3}{4}\%$ for demand drafts and $1\frac{1}{8}\%$ for telegraphic transfers unless otherwise ordered by the Secretary of Finance and Justice.

Second—to provide for the free interchange at par of all forms of United States notes and national bank notes and the Philippine currency.

Third—to exchange upon payment of a premium equal to the cost of transportation between the United States and Manila, United States gold coin or gold bars for Philippine currency.

Fourth and fifth—to withdraw from circulation United States notes, gold coin or gold bars or national bank notes received in exchange for Philippine currency or vice versa until the demand for exchange or for additional currency requires otherwise.

The eighth section of the act provides for the interchange of subsidiary and minor coin for the standard silver pesos.

In the remaining sections of the act provision is made for the issuance of silver certificates as permitted by the act of Congress, the certificates to be covered by

silver coin. These certificates were made receivable for customs, taxes and for all public dues.

In the report of the Chief of the Bureau of Insular Affairs for 1912 the following important statement appears:

"The Philippine coinage system has continued to afford a convenient currency, its parity with gold being assured by a gold standard fund to which all seigniorage and earnings from the sale of New York exchange, as well as interest received from depositaries, are credited. During the last few years the earnings grew so large that it was deemed wise to limit the fund to 35% of the outstanding circulation, exclusive of silver certificates protected by a gold reserve. On December 8, 1911, the Philippine Legislature accordingly passed an act (No. 2083) authorizing this limitation and releasing (to June 30, 1912) from the gold standard fund a total of \$1,698,-513.82. The transfer of this amount to the general funds of the insular treasury was of great assistance in meeting the general needs of the Government, but particularly in the construction of public works.

"Moreover, the complete public confidence in the carefully protected Philippine coinage system has long made it evident that a reasonable proportion of the gold-standard fund could properly and usefully be used in some manner other than depositing it at interest with the various banks designated for that purpose. The legislature accordingly provided, in the same act, that not more than one-half of the fund might be loaned for not exceeding 10 years to municipalities and provinces for much needed public works at 3% per annum. There was also included a further provision that not exceeding one-half of the amount thus loanable might be loaned for a period not to exceed 30 months to the Manila Railroad Company at 5% interest to aid in expediting the

completion of important sections of railroad on certain specified lines.

"The effect of this provision for loans to municipalities and provinces is broader than appears at first sight. Heretofore in the absence of sufficient demand for secured deposits in the Islands to enable the Government to place more than a minor part on deposit in Manila, the greater part of the fund had been necessarily deposited in banks of the United States which furnished ample security. At the same time, owing to the active demand for money at higher interest rates, there was no established market in the Islands for provincial or municipal bonds bearing low rates of interest, although the current revenues of these local governmental bodies are unequal to the needs for additional schoolhouses, markets, water systems, and other public works. This act has made available for this purpose an initial fund of about four and a half million dollars. As showing the awakening of public spirit throughout the Islands, it is interesting to note that 250 municipalities have filed applications for loans for the construction of markets, besides numerous applications for loans for waterworks, and other public utilities.

"Acting within its exclusive general legislative jurisdiction over all that part of the Philippine Islands inhabited by Moros or other non-Christian tribes, the Philippine Commission has enacted the necessary legislation to make a proportion of the funds available to them."

Amendments to this act made in 1914 and 1915 increased the portion of the fund available for investment from 50% thereof to 80% and provided for additional forms of investment. These new forms of investment were the interest bearing first mortgage bonds of corporations organized to erect and operate sugar centrals,

to manufacture copra and cocoanut oil and to manufacture hemp and products derived therefrom; in loans for the establishment and operation of agricultural colleges; and, in loans to corporations or associations organized to complete, maintain and improve irrigation systems.

On December 31, 1915, the gold standard fund was invested as follows:

INVESTMENTS—	PESOS.
Provincial and Municipal loans.....	3,930,148.00
Manila Railroad loans.....	5,637,000.00
Loans to Agricultural Colonies.....	150,000.00
Loans to Insular Government.....	225,000.00
 Total investments	 9,942,148.00
 CASH AND ACCOUNTS RECEIVABLE—	
Treasury and other depositaries.....	8,577,341.12
 Total	 18,519,489.12
Equivalent to	\$9,259,744.56

In this connection the following quotation from the last report of the Secretary of Finance and Justice is interesting and important.

"The gold standard fund legislation in effect at the end of the fiscal year 1915 authorizes the investment of the 80 per cent. of the fund in the various projects cited above and contemplates that the remaining 20 per cent. be held in liquid cash. If the full amount were invested as authorized, over Pesos 14,800,000 of the fund would be thus utilized and approximately Pesos 3,700,000 held in cash. This latter amount, under careful administration, would be sufficient to carry on the ordinary exchange operations which are a factor of importance in the maintenance of the parity of the currency with

gold, but would not be sufficient to maintain confidence in our currency system or to meet emergencies or abnormal conditions should they arise. With this in mind, and notwithstanding the legislation above referred to, it has been decided to postpone indefinitely some of the contemplated investments and to abandon others entirely. It has been definitely decided to limit investments to the extent of 65 per cent. of the fund, retaining the remaining 35 per cent. in cash. This amount even under adverse circumstances, and with the existing power to issue temporary certificates of indebtedness for the purpose of acquiring gold, is in the opinion of the undersigned ample to meet all demands on the fund and will enable it to fully perform the function for which it was created.

"The amount of exchange on New York sold through the fund during the year was Pesos 22,021,461.02, as compared with Pesos 22,016,056.58 for the preceding year. The exchange sold on New York was offset by credits amounting to Pesos 23,000,000 furnished in Manila to the Treasurer of the United States in exchange for an equivalent amount placed to the credit of the Philippine Government in gold dollars in New York. The earnings of the fund from the sale of exchange, interest on deposits, interest on loans and seigniorage amounted to Pesos 997,763.48 for the year under review, as against Pesos 1,017,109.29 for the preceding year, and the net income of the fund from all sources was Pesos 914,489.06, as compared with Pesos 914,955.09 for the preceding year."

The revision of the Philippine currency is one of the most important events connected with the American control of the Islands and reflects great credit upon Mr. Taft and his associates in the Commission in 1901, to whose earnest efforts this reform is attributable.

CIRCULATION

On December 31, 1915, the Philippine coinage available for circulation is stated by the auditor to have amounted to Pesos 52,913,754. Of this amount Pesos 31,113,920 were in the Silver Certificate Redemption Fund. In addition to the silver and silver certificates, the Bank of the Philippine Islands had in circulation about Pesos 5,300,000 notes.

The total amount of money in circulation on December 31, 1915, was therefore about Pesos 58,000,000, which, based on an estimated population on January 1, 1917, of 8,880,000, would give a per capita circulation of Pesos 6.6 or \$3.30, compared with an estimated per capita circulation in 1898 of \$2.50—and with a per capita circulation in Cuba of probably about \$5 and for the United States of \$38.48 at the same date.

The amount of Mexican and Spanish-Filipino coins exported during the period from July 1, 1903, to December 31, 1915, is stated to have been Pesos 33,768,901. This tallies very closely with the estimate of the amount of silver in circulation made by Mr. Harden in 1898.

The fact that the very moderate increase in circulation at the present time appears to be adequate for the demands of trade may probably be attributed to the more stable government, better transportation facilities and better banking facilities.

INCOME AND EXPENDITURE

The following is a comparative statement, expressed in United States currency, of receipts and disbursements of the Government of the Philippine Islands,

exclusive of all items of a refundable character, covering the fiscal years named:

REVENUE AND EXPENDITURE

Credits	Year Ending June 30, 1912	Year Ending June 30, 1913	Year Ending Dec. 31, 1914	Year Ending Dec. 31, 1915
Bal. from prior years..	\$8,239,312.93	\$8,343,240.69	\$4,982,994.90	\$4,259,027.92
Revenues:				
Customs.....	8,908,123.64	7,774,944.74	5,422,481.79	6,072,544.58
Internal.....	4,729,710.67	5,044,231.47	4,881,904.40	
Miscellaneous.....	287,488.56	225,755.09	245,665.64	7,407,804.07
Surplus, gold-standard fund.....	1,698,513.82	444,769.02	430,619.19	
Total Revenues..	<u>\$15,623,836.69</u>	<u>\$13,489,700.32</u>	<u>\$10,980,671.02</u>	<u>\$13,480,348.65</u>
Supplies brought into account.....		27,370.10	34,612.64	
Transfer from Sinking Fund.....			791,376.29	
Total Credits....	<u>\$23,863,149.62</u>	<u>\$21,860,311.11</u>	<u>\$16,789,654.85</u>	<u>\$17,739,376.57</u>
Debits				
Expenditures:				
Bureau and offices.	\$9,638,369.80	\$9,576,538.83	\$8,612,162.79	
Miscellaneous.....	381,496.15	487,015.72	507,909.09	
Fixed charges.....	1,389,931.47	654,373.93	829,550.71	\$9,128,504.45
Aid to Provinces and municipalities....	144,655.00	842,436.72	1,050,375.21	1,487,712.08
Public Works.....	3,338,963.85	3,184,835.80	1,530,629.13	2,440,573.14
Total Expenditures.	<u>\$14,893,416.27</u>	<u>\$14,745,201.00</u>	<u>\$12,530,626.93</u>	<u>\$13,056,789.67</u>
Supplies transferred and dropped.....	626,492.66			
Surplus:				
Cash.....	3,793,632.00	3,178,198.84	308,491.40	
Supplies.....	2,657,344.03	2,611,476.19	2,603,246.27	
Other.....	1,892,264.66	1,325,435.08	1,347,290.25	4,682,586.90
Total Debits....	<u>\$23,863,149.62</u>	<u>\$21,860,311.11</u>	<u>\$16,789,654.85</u>	<u>\$17,739,376.57</u>

BONDED DEBT

Herewith is a tabular statement of the bonded debt of the Philippine Government, together with explanatory notes which fully describe the purpose of each issue, the authority therefor and the terms thereof:

BONDED DEBT

	Title .	Date	Amount	Interest % Payable	Redeemable after		
					Feb. 1, 1914	Payable	
1	Friars' Land Purchase	1904	\$7,000,000	4 Q. Feb.			
2	{ Public Works & Improvements	1905	2,500,000	4 Q. Mch.	Mch. 1, 1915	Mch. 1, 1935	
	do do....	1906	1,000,000	4 Q. Feb.	Feb. 1, 1916	Feb. 1, 1936	
	do do....	1909	1,500,000	4 Q. Aug.	Aug. 1, 1919	Aug. 1, 1939	
3	Manila Railroad Purchase.....	1916	4,000,000	4 Q. Mch.	Dec. 1, 1926	Dec. 1, 1946	
	Total Philippine Gov't .. *		<u>\$16,000,000</u>				
4	{ City of Manila. 1905		\$1,000,000	4 Q. Mch.	June 1, 1915	June 1, 1935	
	do do.... 1907		2,000,000	4 Q. Jan.	Jan. 2, 1917	Jan. 2, 1937	
	do do.... 1908		1,000,000	4 Q. Jan.	Jan. 2, 1918	Jan. 2, 1938	
	Total City of Manila....		<u>\$4,000,000</u>				
5	City of Cebú.... 1911		125,000	4 Q. Jan.	Jan. 1, 1921	Jan. 1, 1941	
	Grand Total.....		<u>\$20,125,000</u>				

Registered bonds \$1,000 and \$10,000.

All bonds are payable in United States gold coin.

Transfer books close in Washington on the 21st day of the month preceding the date upon which interest is paid, except for the Land Purchase Bonds which books close on the 15th day of the month preceding interest payments.

The United States Treasury Department acts as registering and transfer agent.

It also makes disbursements on account of principal and interest from funds furnished by the Philippine government.

*The debt of the Philippine Government is limited by the Act of Congress Aug. 29, 1916, to \$15,000,000 exclusive of the Friars' Land Purchase Bonds.

NOTES

1 FRIARS' LAND PURCHASE BONDS. Act of United States Congress, July 1, 1902 (32 Statutes, 691; Chapter 369).

Purpose of Issue and Terms

Section 64 of the act authorizes the Philippine Commission to acquire lands held by the religious orders (the so-called "Friars' lands") "in such large tracts or parcels and in such manner as in the opinion of the Commission injuriously to affect the peace and welfare of the people of the Philippine Islands."

For the purpose of providing funds to acquire these lands the Government of the Philippine Islands is empowered to sell at not less than par such an amount of bonds as may be necessary. The details as to interest, maturity, registration and payment in United States gold coin are set forth in the table printed above.

Provision is made that such bonds shall be tax exempt in the Islands and in the United States.

Section 65 contains this Sinking Fund provision: * * * "All moneys realized or received, from sales or other disposition of said lands or by reason thereof shall constitute a trust fund for the payment of principal and interest of said bonds at their maturity."

The Philippine Commission on January 6, 1904, passed an act (No. 1034) authorizing an issue for the purpose of \$7,237,000 bonds and on the terms and conditions imposed by the act of Congress. Only \$7,000,000 bonds were offered for sale as it was believed, as proved to be the case, that the premium to be secured would provide for the additional amount of money required.

Section 4 of this act of the Commission makes the following specific provision for a Sinking Fund.

Sinking Fund

"In the event of the lease, sale, or other disposition, by the Government of the Philippine Islands, of any part or all of said lands contracted to be purchased, as above set forth, all moneys received from such leasing, selling, or other disposition shall constitute a trust fund to secure the payment of the principal and interest of said bonds and shall also constitute a sinking fund for the payment of said bonds at their maturity and shall be devoted to no other purpose. When and as rents are collected from any land so leased and when and as the proceeds of sale or other disposition of

any of said lands, when sold or disposed of, are received by the Government of the Philippine Islands, the same shall be deposited in the Treasury of the Philippine Islands and shall be there held as a separate trust fund and shall be invested and reinvested as a sinking fund for the payment of the principal and interest of said bonds as they mature, in such manner as the Philippine Commission shall provide."

An act of the Philippine Commission dated April 26, 1904 (No. 1120), provides as follows:

SECTION 23. All moneys derived by the Chief of the Bureau of Public Lands from the leasing or sale of said lands, or from interest on deferred payments thereon, shall by him be promptly deposited in the Insular Treasury. Such moneys shall be by the Treasurer held separate and apart from general insular funds and shall constitute a trust fund for the payment of the principal and interest of the seven million two hundred and thirty-seven thousand dollars of bonds, issued and sold by the Secretary of War in the name and on behalf of the Government of the Philippine Islands for the purpose of raising money to pay the purchase price of said lands as provided in Act Numbered Ten hundred and thirty-four, entitled "An Act providing for the issue of bonds of the Government of the Philippine Islands to the amount of seven million two hundred and thirty-seven thousand dollars, gold coin of the United States of the present standard value, for the purpose of acquiring funds for the payment of the purchase price of certain large tracts of land in the Philippine Islands, commonly known as the Friar lands, pursuant to the provisions of sections sixty-three, sixty-four, and sixty-five of the Act of Congress entitled 'An Act temporarily to provide for the administration of the affairs of civil government in the Philippine Islands, and for other purposes,' approved July first, nineteen hundred and two." Said money shall also constitute a sinking fund for the payment of said bonds at maturity and may be invested and reinvested in safe interest-bearing bonds or other securities, which shall likewise be held by the Treasurer as a part of such sinking fund, and all interest, dividends, or profits derived from said bonds or other securities thus purchased shall likewise be a part of such sinking fund and may in turn be invested and reinvested in bonds or other securities. All purchases of bonds or other securities by the Treasurer shall be subject to the approval of the Secretary of Finance and Justice.

For modifications of the above see Section 6 of the Act of the Philippine Legislature (No. 1954) dated May 20, 1909, printed on a subsequent page.

On December 31, 1914, the Auditor of the Philippine Islands reported the total assets in this sinking fund to be \$1,927,980. This fund was then invested as follows:

Philippine Railway bonds (par \$702,000)	\$646,650
Public Works bonds (par)	40,000
Manila Hotel bonds (par)	450,000
Provincial and municipal loans	814,360
Accrued interest	25,180
Cash overdraft	<u>48,810</u>
	<u>\$1,927,980</u>

Public Offering

This issue of bonds was offered for subscription in a circular dated at Washington December 30, 1903. The opening clause of this circular reads as follows:

"By direction of the Secretary of War, and the authority of the Government of the Philippine Islands, the Bureau of Insular Affairs of the War Department invites bids for \$7,000,000 of the Land Purchase Bonds of the Government of the Philippine Islands."

It is stated that:

"The bonds will be registered and transferable at the office of the Register of the Treasury at Washington, D. C."

"These bonds are exempt from payment of all taxes or duties of the Government of the Philippine Islands, or any local authority therein or of the Government of the United States, as well as from taxation in any form by or under any State, Municipal or local authority in the United States or in the Philippine Islands."

"Subscriptions will be payable * * * at the Sub-Treasury in New York City * * * and delivery of bonds will be made at said Sub-Treasury."

"The Secretary of the Treasury authorizes the statement that the Philippine Land Purchase Bonds will be accepted at par as security for deposits of public moneys, should further deposits be made." * * *

"The legality of the issue has been passed upon by the Attorney General of the United States, and the form of bonds as drafted has been approved by the Secretary of the Treasury and the Attorney General."

The opinion of the Attorney General is contained in two letters addressed respectively to the Secretary of War and to the Secretary of the Treasury. The more important portions of these letters read as follows:

Department of Justice,

Washington, D. C., December 26, 1903.

“The Secretary of War.

“Sir: In your letter of December 24 you cite Sections 63, 64 and 65 of the Philippine civil government act of July 1, 1902, and state that under that legislation the Philippine government has agreed to purchase certain large parcels of land owned by religious orders or other associations, and, for the purpose of providing funds to acquire such lands, is about to borrow money and to issue \$7,200,000 of registered 4% bonds redeemable at the pleasure of said government after ten years from the date of issue, and payable thirty years from said date. You enclose a draft of the proposed bond, and request an opinion upon the legality of the issue and of the form of bond. * * *

“It is further to be observed that the law explicitly restricts the application of the proceeds of the loan to the purpose of the acquisition of the property authorized, and creates a trust and sinking fund for the payment of the principal and interest of the bonds. As with government and municipal loans in general, similarly authorized and conditioned, the reliance of purchasers of the bonds for protection and security is upon the statutory grant of authority and upon the credit and responsibility of the governmental obligor supported by its property and assets.

“In this case the lands to be acquired will constitute by express enactment a portion of the public property of the Philippine government, and all moneys realized from disposition of the lands will form a sinking fund for the bonds.

“The pledge of the faith and credit of the Philippine government, covering the due application of the proceeds of the loan and the maintenance of the sinking fund, proceeds, then under authority explicitly conferred by the national power; and while in the strict and legal sense the faith of the United States is not pledged as a guarantee for the payment of the loan, or for the due use of the proceeds or the observance of the sinking fund requirements, the entire transaction is to be negotiated under the auspices of the United States and by its recognition and aid.” * * *

“I have the honor thus to suggest, outside your precise query, that I see no reason for any legal doubt of the adequacy or extent of the protection and security given to the purchasers of the bonds;

and on the whole case, and in response to your particular inquiry, I have the honor to say that I am clear in the opinion that the issue of bonds and the form of bond proposed are in strict conformity with the statute and are legal in all respects."

December 31, 1903.

"The Secretary of the Treasury.

"Sir: By your letter of December 29 you inquire whether there is any legal objection to the Treasurer of the United States receiving the principal and interest of the Philippine Land Purchase bonds from the Philippine government and distributing the same to the holders of the securities, as provided for in the draft of the bond proposed. You also inquire whether there is any legal objection to the Register of the Treasury of the United States registering and recording said bonds. * * *

"The loan is issued by the authority of the United States for a purpose of great consequence to the Philippine Islands and to the United States as well, in its sovereign and governmental connection with the islands (Secs. 63, 64, 65 of the Philippine Civil Government Act of July 1, 1902; 32 Stat. 691). Although the loan is not legally guaranteed by the United States, the issue is obviously made over its faith and credit and by its aid and recognition. The bonds are offered to the public under the auspices of the United States—'by direction of the Secretary of War and the authority of the government of the Philippine Islands,' founded upon the act of Congress.

"It is pertinent to observe that all the laws of the Philippine Commission are enacted, in conformity with the first section of the act of Congress just cited 'by authority of the United States'; and it seems that when an agent or representative of the Philippine government in this country is appointed, the Philippine enactment also proceeds 'with the consent of the Secretary of War first had.' (Public Laws and Resolutions passed by the United States Philippine Commission, 1901, *passim*; *id.*, p. 273, in re 'Disbursing Agent.') This clause calls up the function and powers of the Secretary of War relative to the government of the Philippines, which rest upon the instructions of President McKinley to the Philippine Commission of April 7, 1900, directing the Commission to report to the Secretary of War, and that their action be subject to his approval and control. This direction was recognized and confirmed in the first section of the act of July 1, 1902, *supra*.

"Furthermore, Congress has already established relations between the Treasury of the United States and the Treasury of the Philippine Islands regarding the deposit and transfer of public moneys (act of March 8, 1902; 32 Stat., 54); and the bonds in question are to be issued by officers of the United States in execution of a specific act of Congress (*supra*). It appears also from the announcement circular of the Bureau of Insular Affairs of the War Department, inviting subscriptions to the bonds, from which I have already quoted the clause impressing the sanction and authority of the Secretary of War upon the call for bids and the entire negotiation, that by your direction the Treasury Department, under certain conditions, will accept the bonds as security for deposits of public money and in substitution for Government bonds now held as such security.

"It appears further that the instructions from the Secretary of War to the civil government of the Philippines, dated May 9, 1902, authorizing the latter to negotiate for and determine upon a sale of the lands of the religious orders in the Philippines, was transmitted to the Philippine Committee of the Senate June 6, 1902 (Senate Doc., No. 331, pt. 3, 57th Congress, 1st sess., p. 2924). And it appears that the report of the House Committee on Insular Affairs dated April 10, 1902, which recommended the passage of the Philippine Civil Government bill (now the act of July 1, 1902, *supra*), sets out the 'Friars' lands' question with Governor Taft's testimony before the committee. (H. R. Report, No. 1540, 57th Cong., 1st sess., p. 4; see also report No. 2496, 57th Cong., 1st sess. p. 19.)

"The report of the Senate Philippine Committee of March 31, 1902 (Senate Report No. 915, 57th Cong., 1st sess., p. 2), emphasizes the necessity of providing for the purchase of those lands under the provisions of Sections 63-65 of the law as finally adopted.

"Thus it appears that Congress passed the law with full knowledge of all the elements and necessities of the situation.

"These facts, with similar facts and the statutes and laws cited, as well as others (of coinage Sections 76-83, act of July 1, 1902), show the close relation of the United States, its officers and instrumentalities, to this purchase of lands and issue of bonds, and to the financial situation in general in the Philippine Islands. The interest and credit of the United States are deeply and essentially concerned in these matters." * * *

"But, however, you may determine to proceed upon the collateral matters and subsidiary aspects of the case referred to—in response to your particular inquiry, which is the main and essential one, I have the honor to advise you, upon full considera-

tion, that if the Treasurer of the United States and the Register of the Treasury are willing to undertake the respective services proposed on behalf of the Philippine government, and if you consent and approve, I am aware of no legal objection to carrying out the arrangement without specific authority of law."

Price Received

In pursuance of the authority granted by Acts of the United States Congress and the Philippine Commission, the terms of the circular and the opinion of the Attorney General of the United States, as quoted above, this issue of bonds was offered for public subscription on January 11, 1904. The bonds were awarded to a syndicate composed of Harvey Fisk & Sons, the National City Bank and Fisk & Robinson at 107.577 and interest. They were offered to the public by the syndicate at 111 and interest.

2 PUBLIC WORKS AND IMPROVEMENT BONDS. Act of United States Congress, February 6, 1905 (38 Statutes, 689-690; Chapter 453). Section 2 of this act and the enacting clause provide as follows:

Purpose of Issue

SECTION 2. That for the purpose of providing funds to construct port and harbor works, bridges, roads, buildings for provincial and municipal schools, court-houses, penal institutions, and other public improvements for the development of the Philippine Islands by the general government thereof, the said government is authorized from time to time to incur indebtedness, borrow money, and to issue and sell therefor (at not less than par value in gold coin of the United States) registered or coupon bonds of such denominations and payable at such time or times, not later than forty years after the date of the approval of this Act, as may be determined by said government, with interest thereon not to exceed four and one-half per centum per annum: Provided, That the entire indebtedness of said government created by the authority conferred by this section shall not exceed at any one time the sum of five million dollars: And provided further, That the law of said government creating the indebtedness and authorizing the issue of the bonds under this section shall be approved by the President of the United States. * * *

Exemption from Taxation

ENACTING CLAUSE. Be it enacted by the Senate and House of Representatives of the United States of America in Congress as-

sembled, That all bonds issued by the Government of the Philippine Islands, or by its authority, shall be exempt from taxation by the Government of the United States, or by the government of the Philippine Islands or of any political or municipal subdivision thereof, or by any State, or by any county, municipality, or other municipal subdivision of any State or Territory of the United States, or by the District of Columbia.

By acts of the Philippine Commission and Legislature, bonds were authorized to be issued under the terms of the above act of Congress as follows::

Philippine Commission No. 1301, Feb. 20, 1905.....	\$2,500,000
Philippine Commission No. 1444, Jan. 24, 1906.....	1,000,000
Philippine Legislature No. 1954, May 20, 1909.....	1,500,000
	<hr/> <hr/> \$5,000,000 <hr/> <hr/>

Sinking Fund

Sinking funds for the Public Works bonds are provided for as follows:

Act of Philippine Commission, September 27, 1907 (No. 1729):

SECTION 1. There is hereby appropriated, out of any funds in the Insular Treasury not otherwise appropriated, the sum of four hundred and four thousand two hundred and four pesos and thirteen centavos as and for a sinking fund for the payment of the bonds issued under the provisions of Acts Numbered Thirteen hundred and one and Fourteen hundred and forty-four; there is also hereby appropriated for said sinking fund, out of any funds in the Insular Treasury not otherwise appropriated, the sum of twenty thousand four hundred and six pesos and ninety-two centavos for each one million pesos of bonds issued in accordance with said Acts, such appropriation to be a continuing annual appropriation to be effective hereafter upon each anniversary of date of issue until the fund hereby created shall be sufficient to pay all of said bonds. Said sums so appropriated and the interest thereon shall be available for investment by the Insular Treasurer, with the approval of the Governor-General, by deposit at interest with qualified depositaries of Government moneys, and for loans, for periods not exceeding five years in any instance, to provincial and municipal governments for the construction of public works of a permanent character, and for investment in such loans and securities

as are authorized for the Postal Savings Bank by existing laws: Provided, That the rates of interest on all loans made by authority of this section shall be fixed by the Governor-General: And provided further, That no loans shall be made from this fund for such period that the same will extend beyond the period for the redemption of the bonds for which this sinking fund is created.

Act of Philippine Commission, May 20, 1909 (No. 1954),
Section 6:

Commencing with the fiscal year ending June thirtieth, nineteen hundred and eleven, and each succeeding year thereafter until said bonds shall have been paid, there is hereby made a continuing annual appropriation, authorized to be paid out of any funds in the Insular Treasury, not otherwise appropriated, of nineteen thousand four hundred dollars, gold coin of the United States of the present standard value, for each one million dollars, and proportionally for each fraction thereof, of bonds issued in accordance with this Act. Said sum so appropriated and the interest thereon shall be invested by the Insular Treasurer in such manner as may be approved by the Governor-General, and shall constitute a sinking fund for the payment of said bonds: Provided, however, That whenever in the judgment of the Governor-General the public interests so require he may by order suspend for a term of not to exceed three years all accretions to said sinking fund and the appropriations hereby made therefor: And provided further, That whenever in the judgment of the Governor-General the public interests so require he may by order suspend for a term of three years all accretions to the sinking funds heretofore created for the retirement of the bonds issued by virtue of Acts Numbered Thirteen hundred and one, Fourteen hundred and forty-four, or One thousand and thirty-four, except, however, that such order shall not suspend accretions to the sinking fund for the retirement of the bonds issued under said last mentioned Act as are required to be made by section twenty-three of Act Numbered Eleven hundred and twenty or by any Act of the Congress of the United States of America. * * *

Act No. 2425 repeals the first sentence of Section 1 of Act No. 1729 and all other acts in conflict with this act and requires this fund to be adjusted annually so that the amount thereof on each anniversary of the issue of the bonds shall equal an annuity of Pesos 19,371.33 for each Pesos 1,000,000 of bonds outstanding together with interest at the rate of 3½ per cent. per annum counting from the date of issue of said bonds.

Following is a statement of the status of these sinking fund investments as of December 31, 1914, as published in the Report of the Auditor for the Philippine Islands:

Philippine Railway bonds (par \$250,000)	\$228,500
Friar Lands bonds (par \$205,000)	205,000
Public Works bonds (par \$138,000)	138,000
Provincial and municipal loans.....	265,655
Accrued interest	8,152
Cash	10,526
 Total	 <hr/> \$855,833 <hr/>

Public Offerings

The Public Works and Improvement Bonds were offered as follows. All offerings were made "by direction of the Secretary of War and the authority of the Government of the Philippine Islands."

The same statements were made as in the case of the Land Purchase bonds that the bonds are issued with the approval of the President, that the legality of the issue has been passed upon by the Attorney General of the United States, that interest will be paid and transfers of the bonds made through the United States Treasury Department:

Date	Amount	Purchaser	Price	Issue Price
March 10, 1905	\$2,500,000	Mercantile Trust Co. St. Louis	109.06	111
Feb. 15, 1906	1,000,000	Riggs National Bank Washington	108.3747	
Aug. 17, 1909	1,500,000*	Nat'l City Bk. N. Y. Mercantile Trust Co. St. Louis	100.28	

*\$1,392,000—The balance were sold \$100,000 at 100.51, \$3,000 at 101, \$5,000 at 102.

3 MANILA RAILROAD PURCHASE BONDS. Act of United States Congress, August 29, 1916; Act of Philippine Legislature, February 4, 1916 (No. 2615).

The portion of the act of Congress referring to this matter reads as follows:

SECTION 11. * * * "where necessary to anticipate taxes and revenues, bonds and other obligations may be issued by the Philippine government or any provincial or municipal government therein, as may be provided by law and to protect the public credit: Provided, however, That the entire indebtedness of the Philippine government created by the authority conferred herein shall not exceed at any one time the sum of \$15,000,000, exclusive of those obligations known as Friar land bonds, nor that of any province or municipality a sum in excess of seven per centum of the aggregate tax valuation of its property at any one time."

Purpose of Issue

These bonds were issued to provide the funds for the purchase of the Manila Railroad, which has a trackage of approximately 550 miles. It is the only railroad on the Island of Luzon and extends in three directions from the City of Manila. It is a development of the old Manila-Dagupan Railroad and is said by the Insular Bureau officials to be capable of development into an important system.

The Philippine Government becomes the owner of the \$4,000,000 capital stock. In regard to the bonded debt of the railroad company see statement on a subsequent page.

Public Offering

These bonds were offered by the United States War Department—Bureau of Insular Affairs—in a circular dated September 12, 1916.

They are stated to be exempt from all taxation under the terms of the act of Congress approved February 6, 1905. (See note 2.) It is stated that they will be accepted as security for deposits of public moneys and for deposits of postal savings funds, also that the bonds will be accepted at par by the Philippine Government as security for deposits of the funds of that government.

The bonds were awarded on October 4, 1916, to the National City Company, New York, at 101.76, to be paid for October 10. Interest to begin December 1. The price, therefore, was equivalent to 101.0132 and accrued interest.

4 CITY OF MANILA. Sewer and Waterworks Bonds. Act of Congress July 1, 1902 (32 Statutes, 691; Chapter 369). Sections 70, 71, 72, 73.

Act of Philippine Commission (No. 1323), April 14, 1905.
The Act of United States Congress provides as follows:

Purpose of Issue

"For the purpose of providing funds to construct sewers in the City of Manila and to furnish it with an adequate sewer and drainage system and supply of water, the Government of the Philippine Islands with the approval of the President of the United States first had," is authorized to permit the City of Manila to issue and sell \$4,000,000 bonds.

Exemption from Taxation

Such bonds are to be exempt from the payment of all taxes or duties of the Government of the Islands, or of any local authority therein, or of the United States Government.

Subsequently under the terms of an Act of Congress approved February 6, 1905, they were also made exempt from taxation in the United States by any State, or by any county, municipality or other municipal subdivision of any State or Territory, or by the District of Columbia.

Sinking Fund

SECTION 73 Act U. S. Congress of July 1, 1902, provides:

"That the Government of the Philippine Islands shall, by the levy and collection of taxes on the City of Manila, its inhabitants and their property, or by other means, make adequate provision to meet the obligation of said bonds and shall create a sinking fund sufficient to retire them and pay the interest thereon in accordance with the terms of issue: Provided, That if said bonds or any portion thereof shall be paid out of the funds of the government of said islands, said city shall reimburse said government for the sum thus paid, and said government is hereby empowered to collect said sum by the levy and collection of taxes on said city."

The Act of the Philippine Commission contains the same general provisions as the Act of Congress. There is also the following special provision for a sinking fund:

SECTION 6 (No. 1323), April 14, 1905.

"There is hereby appropriated, out of any funds in the Insular Treasury not otherwise appropriated, for public works and permanent improvements of the City of Manila, nineteen thousand three hundred and seventy dollars, money of the United States, each year, until said bonds are paid, for each one million dollars of bonds issued in accordance with this act, such appropriations to

be deemed permanent annual appropriations and to continue until said bonds are paid. Said sums so appropriated and the interest thereon shall be invested by the Insular Treasurer in such manner as the Municipal Board, with the consent of the Secretary of Finance and Justice, shall direct, and shall constitute a sinking fund for the payment of said bonds."

On December 31, 1914, according to the report of the Auditor for the Philippine Islands, the sinking fund was invested as follows:

Sewer and Waterworks bonds (par)	\$260,000
Public Works bonds (par)	50,000
Philippine Islands Bank stock (par \$6,200)	7,750
Provincial and Municipal loans	310,952
Accrued interest	3,922
Cash	22,444
 Total	 <hr/> \$655,068

Public Offerings

The circulars under which these bonds were issued refer to the sinking fund provisions. They state that the legality of these bonds is approved by the Attorney General of the United States.

They also contain all of the general provisions quoted above in the case of the Land Purchase Bonds to the effect that the bonds are issued, registered and transferred and interest and principal are payable through the United States Treasury as agent for the Government of the Philippine Islands; also, that they are receivable from National Banks as security for public moneys.

The statement is made that the City of Manila is without other bonded indebtedness, also that its "form of municipal government is modeled after that of Washington, D. C., and the Philippine Government contributes 30% of the annual expenditure."

Date of Issue	Amount	Purchaser	Price	Issue Price
May 25, 1905	\$1,000,000	1st Nat. Bank Columbus, O.	109.5625	110%
Dec. 19, 1906	2,000,000	Wm. A. Read & Co. New York	*105.777	108%
May 10, 1909	1,000,000	Mercantile Trust Co. St. Louis, Mo.	102.28	103½

*\$15,000 sold at 109.10
30,000 sold at 109

5 CITY OF CEBU. Act of United States Congress, July 1, 1902 (32 Statutes, 691; Chapter 369). Sections 66 to 69, inclusive, act of Philippine Legislature, December 27, 1910 (No. 2009). The provisions are of the same general character as are those under which the bonds of Manila were issued. Issued to provide for sewers, drainage, water and primary public school buildings.

Sinking Fund

The Act of the Philippine Legislature provides for a sinking fund to be paid out of any funds in the Insular Treasury not otherwise appropriated of \$1,937 for each \$100,000 bonds outstanding and at that rate for a less amount of bonds. This sum, with the interest thereon, is to be invested annually as the Governor-General may approve.

This sinking fund on December 31, 1914, amounted to \$4,842.50, cash in Philippine Treasury.

Public Offering

Offered June 30, 1911. Sold at 102.033.

BONDS GUARANTEED BY THE PHILIPPINE GOVERNMENT

MANILA RAILROAD Co. First Mortgage, Southern Lines; authorized \$30,000,000; amount outstanding, \$10,575,000; interest 4%, payable 4th day of May and November.

Farmers Loan & Trust Co., New York, Trustee.

Denominations—Coupon \$1,000; Registered \$1,000, \$5,000, \$10,000, \$25,000; interchangeable.

Payable—May 1, 1939. Principal and interest payable in United States gold coin, coupon bonds payable also in London at \$4.86 per pound sterling; in Frankfort-on-Main or Berlin at rate of marks 4.20 per dollar; in Amsterdam in florins at 2.48 per dollar; in France, Belgium or Switzerland in francs at 5.16 per dollar.

Privilege of Extension—In connection with the acquisition of the stock of this company by the Philippine Government the holders of these bonds are to be given the right to extend the date of payment to May 1, 1959.

Redeemable—As a whole on 3 months' notice, or by drawings for sinking fund at 110 and interest.

Sinking Fund—The mortgage provides for an annual sinking fund of $\frac{1}{2}\%$ of bonds outstanding from May 1, 1919, to 1928 and

1% of bonds outstanding May 1, 1929, to maturity. Sinking fund may be invested in bonds if obtainable below 110 and interest. However, under the terms of sale of the stock of this company to the Philippine Government [see below] the Railroad Company agrees to establish a sinking fund from funds to be deposited with the Insular Treasurer by the Railroad Company on May 1, 1917 and on May 1 of each succeeding year of 500,000 pesos (\$250,000) for three instalments and thereafter in instalments large enough to enable the Railroad Company to pay off the bonds issued and to be issued by 1939. If, by consent of the holders the date of payment of the bonds is extended to 1959, then the sinking fund instalments are to be graduated accordingly.

The Philippine Government agrees by a continuing annual appropriation or in such other legal manner as may be agreed upon to loan the company at 4% interest an amount sufficient to maintain the sinking fund at the required figure. Such advances become a lien on the property directly following the lien of the 4% bonds.

Offered in 1910 by Speyer & Co.—\$2,000,000 at 86 and interest. The balance of the bonds issued is owned by the Manila Railway Co. (1906) Ltd., an English Corporation which has agreed to extend the date of payment thereof to May 1, 1959.

The bonds are accepted from National Banks as security for public deposits by the United States Treasury Department at 90% of their market value, not to exceed 90% of par value.

The Manila Railroad Company was incorporated June 6, 1909, under the laws of New Jersey, and took the place of an old English Company which held concessions from the Spanish Government. The company holds concessionary grants from the Philippine Government for the operation of railroads in Luzon, the largest of the Philippine Islands.

The lines are narrow gauge, 3 feet 6 inches, and divided into two divisions, one lying north of Manila and one south with a common terminal at Manila. They are designated, respectively, as "Northern Lines" and "Southern Lines." Under the concessions the two systems are required to be kept separate and distinct and are to be constructed, maintained and operated and their books and accounts kept as if owned by separate and independent companies. The concessions are perpetual. The mileage is as follows:

Northern Lines—Authorized 350 miles, constructed December 31, 1915, 315.38 miles.

Southern Lines—Authorized 470 miles, constructed December 31, 1915, 309.59 miles.

The bonds listed above are secured by an absolute first mortgage lien upon the "Southern Lines."

Subordinated to these bonds there are two issues of bonds for \$4,330,000 at 6% and \$7,716,000 at 7% which are secured by a second and third mortgage lien respectively on the Southern Lines and by a first and second mortgage lien respectively upon the Northern Lines. These two issues of bonds are owned by the Manila Railway Company (1906) Ltd., which has agreed to accept in lieu thereof 5% 40-year bonds similarly secured either in one series or in two series as may be agreed upon.

The capital stock outstanding, \$3,652,800 7% Cumulative Preferred and \$2,130,700 Common, has until recently been owned by the English Company. On February 4, 1916, the Philippine Assembly passed a bill authorizing the Philippine Government to buy this stock for \$4,000,000.

It is stated that the Philippine Government has advanced \$3,000,000 toward the construction of the road and that on account of the inability of the English Company, because of the war, to secure funds to complete construction work it has become necessary for the Government to purchase the railroad to protect its investment.

The net advances by the Philippine Government on account of the guarantee of interest had amounted up to May 1, 1916, to only \$21,430.

PHILIPPINE RAILWAY Co. First mortgage. Authorized \$15,000,000; amount outstanding, \$8,551,000; interest 4%, payable 4th day of January and July; dated, 1907; payable July 1, 1937.

Bankers Trust Company, New York, Trustee and Fiscal Agent.

Principal and interest payable in New York in U. S. gold coin, in London at \$4.86 per pound and Amsterdam at florins 2.49.

Denominations—Coupon, \$1,000; Registered, \$1,000 and \$10,000.

Sinking fund— $\frac{1}{2}\%$ of bonds outstanding July 1, 1911, to July 1, 1920, and 1% from July 1, 1921, to maturity. If bonds can not be purchased for sinking fund below 110 and interest, they may be drawn by lot at that price.

Offered September 1907, by William Salomon & Co., New York, at 95 and interest. \$4,000,000 offered November, 1908, at 95 and interest, by William Salomon & Co., New York, Glyn. Mills, Currie & Co., London, Hope & Co., Amsterdam, and Bureau of Insular Affairs, U. S. War Department, Washington, D. C.

The bonds are accepted from National Banks by the United States Treasury Department as security for public deposits.

The Philippine Railway Company was incorporated March 5, 1906, under the laws of the State of Connecticut to operate under a concession granted July 13, 1906, by the Philippine Government to build lines of railroad as follows:

Island of Panay, 100 miles; Island of Negros, 100 miles; Island of Cebu, 95 miles, total 295 miles. The construction of 35 miles in the Island of Cebu is optional with the company, which has the right to build an additional 25 miles of railroad on each of the islands. On December 31, 1915, the company had in operation 131.44 miles. The gauge is 3 feet 6 inches. Operations to date have resulted in heavy deficits.

Guarantee

The interest alone is guaranteed upon these bonds. The advances by the Government on this account up to December 31, 1915, aggregated \$1,972,550.

ACT OF CONGRESS AUTHORIZING THE CONSTRUCTION OF RAILROADS IN THE PHILIPPINE ISLANDS AND THE GUARANTY OF THE INTEREST THEREON BY THE PHILIPPINE GOVERNMENT.

Acts of U. S. Congress, February 6, 1905 (38 Statutes 689, 690, Chapter 453) Section 4.

That for the purpose of aiding in the construction, equipment, operation, and maintenance of such railroads, using steam, electricity, or other power, in the Philippine Islands as the Philippine government may hereafter specifically authorize, the said government is empowered to enter into a contract of guaranty with any railroad company organized pursuant to the laws of said government or of the United States or any State thereof undertaking to construct, equip, operate, and maintain any such railroad, whereby the said government shall guarantee interest, at not exceeding four per centum per annum upon first lien bonds to be issued by such company, properly secured by mortgage or deed of trust upon the said railroad, its equipment, franchises, and other property, real, personal, and mixed, then owned and thereafter to be acquired.

Such contract of guaranty shall be signed on behalf of said government by the governor-general thereof, and on behalf of the railroad company undertaking the construction, equipment, maintenance, and operation of said railroad by the chief officer thereof, thereunto duly authorized by the stockholders and directors of the same, and shall contain, among others, the following provisions:

First. That the total amount of bonds the interest upon which is to be guaranteed shall in no event exceed the amount actually

invested in cash in the construction and equipment of such railroad, to be determined as hereinafter provided.

Second. That no debt except as above provided shall be incurred by the said undertaking railroad company, its successors or assigns, by which a lien shall be created upon such railroad, its equipment or other property, prior to the lien of said government to secure the repayment of the interest paid by it under said guaranty without the consent of the Congress.

Third. That the said railroad shall be constructed and equipped within the time limited in the first instance by the Philippine government, or any extension of said time granted by said government for good cause shown.

Fourth. That after the construction and equipment of said railroad in accordance with the foregoing provisions and all others of the contract of guaranty, the railroad shall apply its gross earnings as follows: First, to the necessary operating expenses, including reasonable expenses of the corporation; second, to the necessary and ordinary repairs of said railroad and its equipment; third, to such betterments and extraordinary repairs of said railroad or equipment as may be first by the governor-general of the islands, in writing, expressly consented to; fourth, to the payment of the interest on the bonds, the interest on which to any extent shall have been guaranteed by the Philippine government under this section.

The contract of guaranty shall be in substance indorsed upon said bonds and signed by the treasurer of said government, and the said contract of guaranty shall not be executed except upon satisfactory proof of the completion of the railroad in sections of not less than twenty continuous miles each, and in such proportion, to be fixed from time to time by said government, as the actual capital invested in completed road and acquired equipment shall bear to the capital required for the completion and equipment of the entire road, to be determined by the said government.

All payments made under any such guaranty shall be from the time the same are paid a lien upon said railroad and its property then owned and thereafter to be acquired subject only to the lien of the mortgage or deed of trust executed to secure the bonds, the interest upon which shall have been so guaranteed, and the total sum paid under such guaranty shall at the expiration thereof be payable to said Philippine government upon demand, and in default of such payment the said lien shall be immediately forecloseable.

Provided, That in no event shall the total annual contingent liability of said government under the guarantees authorized by

this section at any time exceed the sum of one million two hundred thousand dollars, and no such guaranty shall continue for a longer period than thirty years.

For the further security of the Philippine government said government shall declare the proper rules for ascertaining clearly the cash capital actually invested in said railroads and the net income actually received on said capital so invested, and shall provide for supervision by said Philippine government, through the auditing, engineering and railroad bureaus thereof and by such other agencies as may be fixed by law, of the conduct of the finances of the road, and of its location, construction, operation, and maintenance.

The Philippine government shall appoint two members of the board of directors of any undertaking company the interest on whose bonds shall be guaranteed as provided in this section.

Each such railroad company shall make such reports from time to time as to its receipts and expenditures, in such form and substance and sworn to by such officials, as may be prescribed by the Philippine government.

The supreme court of the Philippine Islands shall have original and exclusive jurisdiction in all actions, proceedings or suits at law or in equity brought by the Philippine government against any person or corporation involving the construction of this section or any right existing under, duty enjoined or act prohibited by said section or any contract made in pursuance thereof; and jurisdiction is hereby vested in the supreme court to make such order, to enter such judgment or decree and to take such proceedings in enforcement thereof as may be proper. During the vacations of said court the chief justice or any judge thereof shall have all the power to grant restraining orders, orders of injunction, to appoint receivers, or to do any other act under authority herein granted, that a judge of a court of general jurisdiction may do in the vacation of court.

Section seventy-four of an Act entitled "An Act temporarily to provide for the administration of the affairs of civil government in the Philippine Islands, and for other purposes," approved July first, nineteen hundred and two, so far as the same is not in conflict with the provisions of this section, is hereby made applicable to the corporations the interest upon whose bonds or any part thereof shall be guaranteed under the provisions hereof.

PORTO RICO

CAPITAL SAN JUAN

POLITICAL STATUS

Porto Rico was ceded to the United States by Spain December 10, 1898.

Civil government was established May 1, 1900. According to a United States Supreme Court decision rendered December 2, 1901, the citizens of Porto Rico are not citizens of the United States.

The present form of government is determined by an act of Congress dated April 12, 1900.

The Governor and the chief executive officials are appointed by the President of the United States and confirmed by the Senate.

These officials with five other reputable citizens of Porto Rico, also appointed by the President, constitute an Executive Council, with powers similar to those of the upper house of a state legislature.

Then there is a lower house, known as the House of Delegates, consisting of 35 delegates elected biennially by the citizens of Porto Rico.

The Legislative Assembly has the usual law making powers but the enabling act provides that "all laws enacted by the Legislative Assembly shall be reported to the Congress of the United States, which hereby reserves the power and authority, if deemed advisable, to annul the same."

By an act of Congress approved July 15, 1909, the President is required to designate an executive department of the government of the United States to which the Governor and other officials shall report.

President Taft by executive order dated July 15, 1909, designated the War Department to receive such reports and all matters pertaining to the government of Porto Rico are placed in the jurisdiction of that department and especially assigned to the Bureau of Insular Affairs.

The people of Porto Rico have the right to elect every two years, a resident commissioner to the United States. This commissioner has a seat in Congress but not a vote.

A new organic act for the government of the island has been pending in Congress for several years. Students of the Porto Rican political status feel that action should be taken to grant American citizenship to those Porto Ricans desiring it. At present they are men without a country, as Porto Rico is merely a ward, a "possession" of the United States.

LOCATION, AREA AND POPULATION

Porto Rico is one of the West Indies. It is located 800 miles due east of Key West, Florida. It is about 1,500 miles south from New York and about the same distance east from New Orleans.

The island has an area of 3,606 square miles, or say 2,300,000 acres.

The Bureau of the U. S. Census estimates the population for January 1, 1917, at 1,223,981, say 339.4 to the square mile. The island is quite mountainous, but there are large areas of level or rolling country. The southerly side is subject to severe droughts to remedy which, an extensive system of irrigation has been installed.

INDUSTRIES AND COMMERCE

The principal industries are agricultural. The leading crops are sugar, coffee, tobacco and fruits.

The fortunes of the island are to a marked degree dependent upon the sugar crop. The reduction of the tariff on sugar was a great blow to the commerce of Porto Rico in 1914, reducing the value of sugar exports in that year by nearly one-third, as compared with the banner year, 1912. The high prices for sugar brought about as the result of the European war again raised the value of the exports in 1915 to the highest value theretofore known, except that of 1912; while in 1916 the value of the sugar exported reached the phenomenal figure of about \$46,000,000.

Tobacco in the leaf and manufactured, coffee, fruits and nuts are the other important exported products.

The most important imports are bread-stuffs, meat products and general merchandise.

The per capita purchasing capacity of the island is greater than any of the Latin-American countries with the exception of Argentina and Cuba. If the area of the country is considered it is far above all the others.

Porto Rico's exports in the fiscal year ended June 30, 1916, were valued at \$66,842,660, which makes over \$18,500 per square mile. In Cuba, the next largest, exports in 1915 amounted to \$219,447,000, with an area of about 46,000 square miles, or less than \$5,000 per square mile. In Argentina the proportion is \$550,000,000 of exports in 1915 for an area of 1,153,000 square miles, or less than \$500 per square mile.

Material development in Porto Rico is taking place steadily, and within a few years when its railway system is completed and modern improvements have been adopted in all its cities and agricultural establishments, it may claim to be one of the richest countries in the world in proportion to its size.

There are 12 recognized banks on the Island reporting to the Treasury Department. Nine of the 12 banks are owned and controlled by local capital, one is an American institution and the other two are Canadian. The total resources on June 30, 1916, were reported at \$28,195,766.

The bulk of the trade of the Island both in exports and imports is with the United States. This is largely due to the fact that American goods pay no duty in Porto Rico.

The following tables are of interest:

Years Ended	EXPORTS			IMPORTS		
	To the U. S.	To Foreign Countries	Total	From the U. S.	From For- eign Countries	Total
June 30 1901..	\$5,581,288	\$3,002,679	\$8,583,967	\$6,965,408	\$1,952,728	\$8,918,136
1902..	8,378,766	4,055,190	12,433,956	10,882,653	2,326,957	13,209,610
1903..	11,051,195	4,037,884	15,089,079	12,245,845	2,203,441	14,449,286
1904..	11,722,826	4,543,077	16,265,903	11,210,069	1,958,960	13,169,029
1905..	15,633,145	3,076,420	18,709,565	13,974,070	2,562,189	16,536,259
1906..	19,142,461	4,115,069	23,257,530	19,224,881	2,402,784	21,827,665
1907..	22,070,133	4,926,167	26,996,300	25,686,285	3,580,887	29,267,172
1908..	25,891,281	4,753,209	30,644,490	22,677,376	3,148,289	25,825,665
1909..	26,394,312	3,996,913	30,391,225	23,818,545	2,925,781	26,544,326
1910..	32,095,645	5,864,574	37,960,219	27,097,654	3,937,201	30,634,855
1911..	34,765,409	5,152,958	39,918,367	34,671,958	4,115,039	38,786,997
1912..	42,873,401	6,832,012	49,705,413	38,470,963	4,501,928	42,972,891
1913..	40,538,623	8,564,942	49,103,565	33,155,005	3,745,057	38,900,062
1914..	34,423,180	8,679,582	43,102,762	32,568,368	3,838,419	36,406,787
1915..	42,311,920	7,044,987	49,356,907	30,929,831	2,954,465	33,884,296
1916..	60,952,758	5,889,902	66,842,660	35,892,515	3,058,400	38,950,065

DESTINATION OF EXPORTS

1915

United States.....	\$42,311,920	Dominican Republic	\$223,645
Cuba.....	2,790,771	Netherlands.....	146,065
Spain.....	1,876,106	Sweden.....	140,910
France.....	815,527	Venezuela.....	89,792
Italy.....	733,354	All other countries.....	228,817
		Total.....	\$49,356,907

SOURCE OF IMPORTS

1915

United States.....	\$30,929,831	Netherlands.....	\$159,078
Spain.....	679,415	France.....	145,059
Canada.....	506,328	Germany.....	139,373
United Kingdom.....	339,681	All others (each one less than \$100,000).....	546,220
Dominican Republic.....	233,383		
India.....	205,928	Total.....	\$33,884,296

LEADING EXPORTS

Fiscal Year June 30	Sugar	Cigars	Coffee	Oranges	Pineapples	Cocoanuts	Grapefruit
1902	\$5,890,302	\$1,549,235	\$3,195,662	\$51,364	.....	\$12,720	.....
1907	14,770,682	4,241,410	4,693,004	469,312	\$64,831	174,957	\$7,586
1912	31,544,063	5,086,711	6,754,913	584,414	684,774	308,883	525,048
1913	26,619,158	5,800,686	8,511,316	740,091	1,142,348	353,690	726,811
1914	20,240,335	5,597,276	8,193,544	752,180	1,246,001	451,882	751,769
1915	27,278,754	6,016,122	7,082,791	378,181	1,723,863	410,378	834,440
1916	45,809,445	5,581,535	5,049,283	790,797	1,176,406	413,573	837,414

Tobacco Un-Manufactured

1907	\$1,232,058	1913	\$3,188,227	1915	\$3,204,423
1912	2,320,130	1914	3,206,610	1916	3,033,149

FINANCES

The finances of Porto Rico are carefully handled. The general government furnishes the capital required for municipal improvements, taking the bonds of the municipalities and then borrowing on its own credit the moneys required. This arrangement permits the municipalities to borrow on the basis of the credit of the general government. Relatively large amounts have been expended on education, sanitation and good roads since the control of the Island passed to the United States.

The budget has steadily grown as is the tendency nearly everywhere. Much larger expenditures should be made for education. The percentage of illiteracy is about 66.5.

The insular revenues are unfavorably affected by the steady growth of the business with the United States with a corresponding reduction in the imports from foreign countries and therefore in the customs receipts.

The large population, the relatively low average wealth and the dependence of the business of the Island to so great an extent upon the sugar crop, makes the problem of raising sufficient revenues to meet the growing needs of the Island a difficult one. Unless the de-

velopment of the Island is to be seriously retarded the Federal Government may be compelled to make direct appropriations for education, roads and harbors or else some better means of raising revenue locally must be devised.

Following is a comparative statement of receipts and expenditures for the five years ended June 30, 1916:

RECEIPTS AND EXPENDITURES

Years ended June 30	1912	1913	1914	1915	1916
Cash beginning of Year	\$1,214,001	\$1,794,554	\$930,025	\$283,273	\$575,310
Receipts					
Customs.....	1,180,593	1,028,292	674,000	350,753	295,500
Internal Revenue & Loans	3,378,211	3,354,252	4,079,903	5,626,350	3,907,434
Repayment of loans by Municipalities; other repayments and transfers.....	877,419	1,044,507	2,031,045	1,551,604	1,158,446
Total Insular Receipts...	\$5,436,223	\$5,427,051	\$6,784,948	\$7,528,707	\$5,361,380
Total to be accounted for	\$6,650,224	\$7,221,605	\$7,714,973	\$7,811,980	\$5,936,691
Disbursements					
Expenditures Insular Government	\$4,670,553	\$5,730,580	\$6,699,623	\$5,271,318	\$4,250,792
Loans to Municipalities and School Boards.....	32,995	522,508	581,205	325,117	448,950
Repayments & Transfers.	152,122	38,492	150,872	1,640,235	1,077,182
To t a l disbursements, loans, repayments and transfers.....	\$4,855,670	\$6,291,580	\$7,431,700	\$7,236,670	\$5,776,924
Balance on hand June 30	1,794,554	930,025	283,273	575,310	159,767
Total.....	\$6,650,224	\$7,221,605	\$7,714,973	\$7,811,980	\$5,936,691
ASSESSED VALUE OF PROPERTY DECEMBER 31					
1901	\$96,420,769		1912	\$179,272,023	
1906	98,885,474		1913	182,662,585	
1911	163,815,755		1914	172,981,609	
1915	\$180,776,142				

The sudden advance in the price of raw sugar during 1914, due wholly to the outbreak of the European war, removed, in a large degree at least, the necessity for affording some temporary relief to the owners of sugar properties. But relief in the form of a 30% re-

duction of the assessed valuations of all personal property of the sugar manufacturers, including mills, machinery, railways, etc., had already been determined upon and put into effect. As a result the total value of all taxable property of the island, which on December 31, 1913, was \$182,662,585, was reduced on December 31, 1914, to \$172,981,609. For the year 1915 this reduction was not in effect.

BONDED DEBT—September, 1916

Purpose	Date of Issue Jan. 1	Amount Outstand- ing	Denomina- tions	Payable
1. Roads.....	*1907	\$550,000	Cpn. \$1,000 Reg. 5,000	By series \$50,000 annually Jan. 1, 1908 to Jan. 1, 1927
	†1910	425,000	Reg. 5,000	Redeemable after Jan. 1, 1920; payable Jan. 1, 1927
Public Im- provement..	†1914	1,000,000	Reg. 1,000 5,000	Redeemable after Jan. 1, 1925; payable Jan. 1, 1939
	† ^e 1916	500,000	Reg. 1,000 5,000	Jan. 1, 1927-8-\$100,000 each Jan. 1, 1929-30-\$150,000 each
2. Irrigation and Irrigation Re- funding....	*1909	2,550,000	Cpn. 1,000 Reg. 5,000	By series \$150,000 annually Jan. 1, 1914 to Jan. 1, 1933
	†1913	1,000,000	Reg. 5,000	Redeemable after Jan. 1, 1933; payable Jan. 1, 1943
	Oct. 1 1913	700,000	Reg. 1,000 5,000	By series \$100,000 annually Jan. 1, 1944 to Jan. 1, 1950
	Jan. 1 †1914	400,000	Reg. 1,000 5,000	Jan. 1, 1951 to Jan. 1, 1954
	July 1 †1915	400,000	Reg. 1,000	Jan. 1, 1955 to Jan. 1, 1958
	Jan. 1 †1916	200,000	Reg. 1,000 5,000	Jan. 1, 1959 to Jan. 1, 1960
3. San Juan Harbor.....	Jan. 1 †1912	100,000	Reg. 5,000	Redeemable after Jan. 1, 1922; payable Jan. 1, 1937
	†1914	200,000	Cpn. 1,000	Redeemable after Jan. 1, 1924; payable Jan. 1, 1939
	†1915	200,000	Cpn. 1,000	Redeemable after Jan. 1, 1925; payable Jan. 1, 1940
4. Insular Loans Refunding...	†1914	655,000	Reg. 1,000 5,000	By series, varying amounts: Jan. 1, 1923 to Jan. 1, 1953
	July 1 †1915	300,000	Reg. 1,000	July 1 1919 to July 1, 1935
				\$9,180,000

Interest on all issues 4% payable January 1st and July 1st.

*Transferable and interest payable J. & W. Seligman & Co., New York.

†Transferable and interest payable United States Treasury Department.

*Payable also at office of the Treasurer of Porto Rico.

Books for the transfer of registered bonds close on the 15th of June and 15th of December.

NOTES

1 These bonds were authorized for the purpose of road construction and other public improvement projects and their redemption is amply provided for by a special tax of .10% imposed on property. The issues of 1907, 1910, 1914 and 1916 are a first, second, third and fourth charge respectively on this sinking fund which amounted on May 31, 1916, to \$734,209.

In addition to this provision the good faith of the People of Porto Rico is pledged for the payment of the interest and repayment of the principal of these bonds.

2 By an Act approved September 18, 1908, the Legislature authorized the issue of \$3,000,000 bonds for the purpose of constructing a system of irrigation for the sugar lands on the south side of the island, and by an Act approved March 9, 1911, another issue in the amount of \$1,000,000 for the same purpose was authorized. In accordance with the provisions of an Act approved August 8, 1913, and amendment thereto, there were sold additional irrigation bonds for construction purposes to the amount of \$500,000 and for the purpose of meeting the interest and principal obligations of the former irrigation bonds, \$1,000,000 more. By this same Act, the issuance of \$350,000 additional refunding bonds was authorized; these bonds to be issued in such amounts and at such times prior to January 1, 1920, as the Executive Council should determine.

These bonds are to be paid from the receipts of special taxes levied upon the lands benefited. Provision is made in the Act of August 8, 1913, above referred to, whereby limitations are placed upon the amount of taxation for which the lands shall be liable in any given year, and provision is also made whereby refunding bonds may be issued, provided the receipts from taxation shall not be sufficient to meet the obligations of the outstanding bonds and the maintenance and operation of the system; the amount of such additional bonds to be limited to the amount of former irrigation bonds then already redeemed.

The entire irrigation project is now completed and in operation, and the fund from the special taxes, provided by law, together with the privilege of issuing refunding bonds in case of necessity, offers ample security for the payment of all irrigation bonds at their maturity; but in addition to this, the good faith of the People of Porto Rico is pledged for the payment of the interest and the repayment of the principal of these bonds.

3 These bonds were authorized for the purpose of port improvements at San Juan and provision is made that the port and harbor dues collected at the port of San Juan, as well as receipts from the sale of certain property, shall be deposited in the sinking fund for payment of the interest and principal of these bonds. This sinking fund on June 30, 1915, amounted to \$70,778. In addition, payment is authorized to be made, if necessary, from any revenues coming into the Insular Treasury and available for expenditure.

4 These bonds are authorized by Act of the Legislative Assembly of Porto Rico, approved July 26, 1913, for the purpose of refunding to the Insular Treasury the amounts advanced to the Municipalities and School Boards for the construction of public improvement projects. They are secured by bonds of the Municipalities and School Boards held and owned by the People of Porto Rico, and in addition to this security the good faith of the People of Porto Rico is pledged for their payment and any necessary portion of the general funds of the Insular Treasury may be used for that purpose.

All property taxes throughout the island are collected by the Treasurer of Porto Rico, and the portions due the Municipalities and School Boards are paid them by the Treasurer. In each of the ordinances authorizing the Municipal and School Board loans mentioned above, authority is given to the Treasurer of Porto Rico to retain such portion of the moneys due the borrower as may be necessary to meet the obligations of these bonds. In this manner the payment of all Municipal and School Board bonds is fully assured.

The schedule of the maturities of these refunding bonds has been so arranged as to be simultaneous with the maturity of practically the same amount of Municipal or School Board bonds. In addition to this security the good faith of the People of Porto Rico is pledged for the payment of these bonds, and any necessary portion of the general funds of the People of Porto Rico may be used for this purpose.

LEGAL STATUS

The legality of the Porto Rican bonds has been favorably passed upon by the Attorney General of the United States.

The United States Treasury Department authorizes the statement that unless and until further notice to the contrary shall have been given, it will accept these bonds as security for public deposits at their market value, but not exceeding their par value.

The Postmaster General authorizes the statement that the bonds will be accepted at par as security for deposits of postal savings funds.

The bonds will also be accepted at par by the Government of Porto Rico to secure deposits of funds of that government, or as security required by any of the laws of Porto Rico to be deposited with the Treasurer of Porto Rico.

Section 38 of the act of Congress of April 12, 1900, provides as follows in regard to bond issues by Porto Rico.

"Where necessary to anticipate taxes and revenues, bonds and other obligations may be issued by Porto Rico or any municipal government therein as may be provided by law to provide for expenditures authorized by law, and to protect the public credit, and to reimburse the United States for any moneys which have been or may be expended out of the emergency fund of the War Department for the relief of the industrial conditions of Porto Rico caused by the hurricane of the 8th of August, 1899.

"Provided, however, That no public indebtedness of Porto Rico or of any municipality thereof shall be authorized or allowed in excess of 7% of the aggregate tax valuation of its property."

TAXATION OF BONDS

The bonds of Porto Rico are not subject to the Federal Income Tax imposed by the law of 1913 or to the Federal Stamp taxes imposed by the law of 1914.

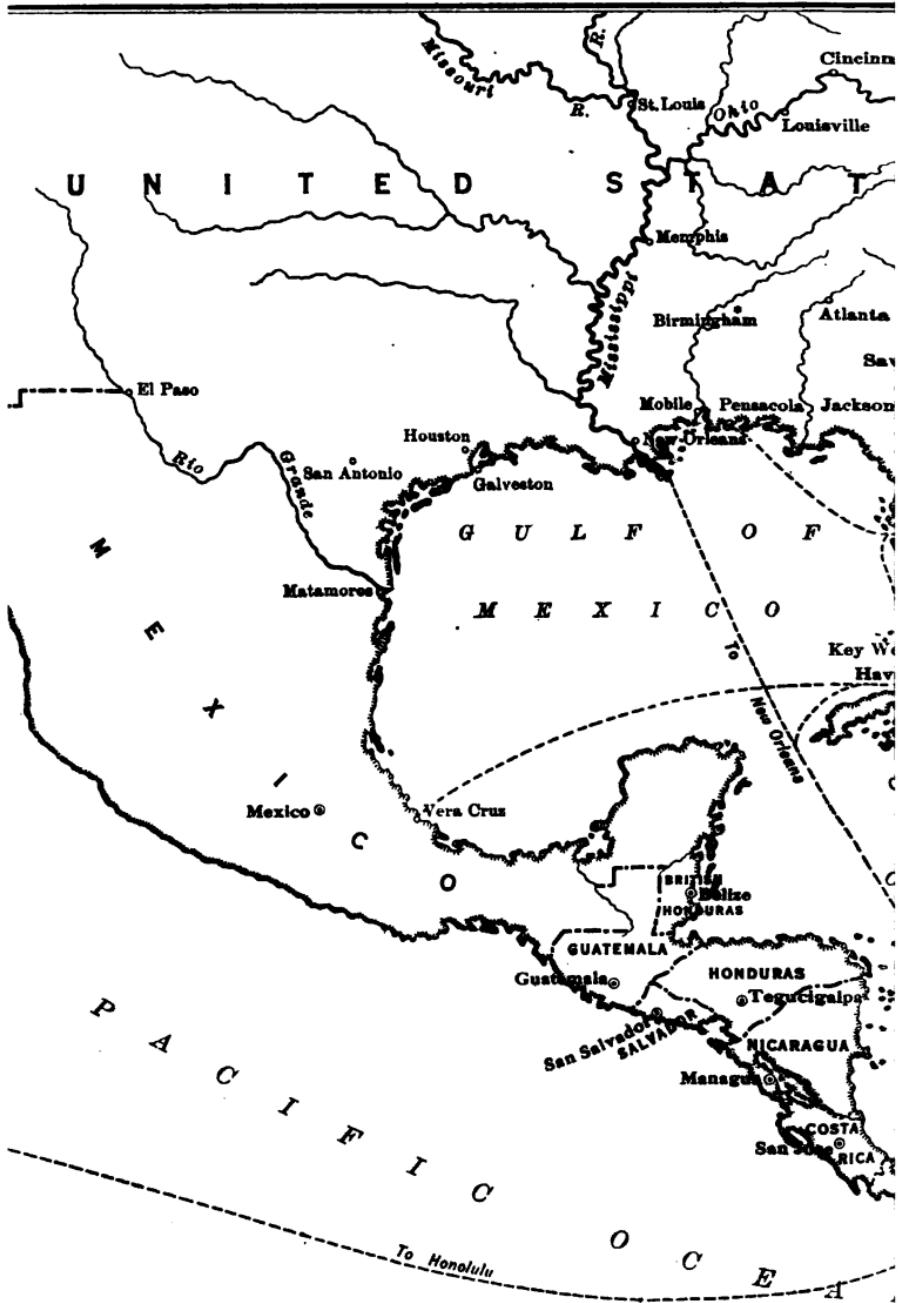
According to a recent decision of the United States Supreme Court in the case of Farmers & Mechanics Savings Bank of Minneapolis vs. State of Minnesota, 232 U. S., 516 (1914), the bonds are apparently exempted from the taxation by the States.

They are also exempt from all taxation by the Porto Rican Government, or by any political subdivision thereof.

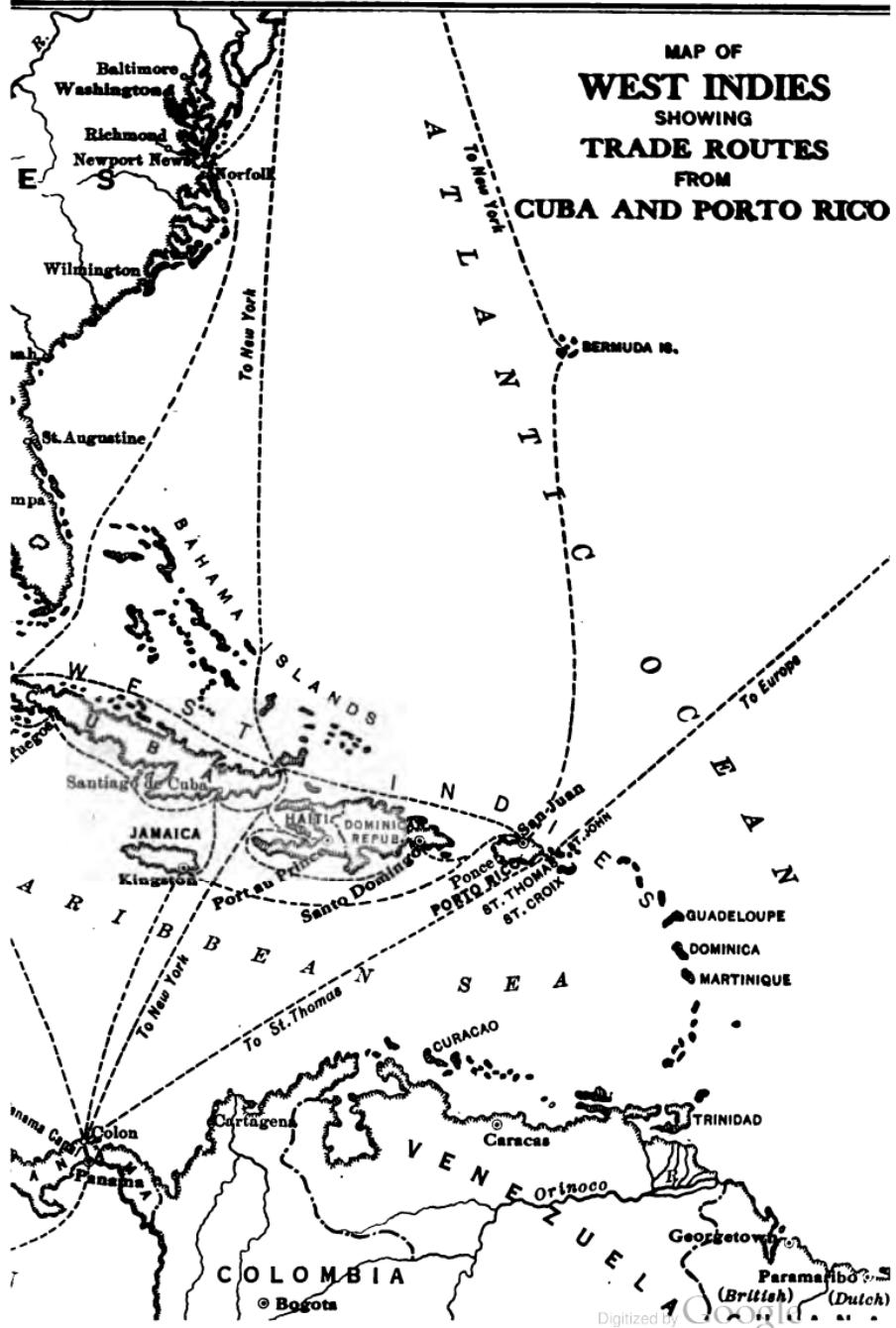
SUMMARY

All bonds are a direct obligation of the Government of Porto Rico and a charge upon the entire revenues.

The bonds of Porto Rico, like those of Hawaii, would appear to be solely dependent for payment of principal and interest upon the good faith of the Insular Government. The responsibility of the United States Government appears to begin and end in providing proper safeguards against illegal or improper issues.



MAP OF
WEST INDIES
SHOWING
TRADE ROUTES
FROM
CUBA AND PORTO RICO



PART II.

REPUBLIC OF CUBA

CAPITAL HAVANA

HISTORICAL

The Island of Cuba was discovered by Columbus on October 28, 1492. It was under Spanish domination or Spanish rule until December 10, 1898, when, after the intervention of the United States, Spain relinquished all right of sovereignty over Cuba and the United States took temporary possession, assuming all international obligations arising from such occupation.

American intervention was brought about as a climax of a long period of Spanish misrule in the Island. This finally became so intolerable that not only from reasons of humanity, but because the interests of the United States, both commercially and from the point of view of sanitation, were being increasingly jeopardized thereby, the United States was compelled to intervene.

For three years after 1898 the affairs of the Island were administered exclusively by the War Department of the United States, and extensive public improvements were effected.

In December, 1901, after the people had adopted a constitution organizing the Republic of Cuba, a president was elected in the person of Estrada Palma.

On May 20, 1902, the United States formally withdrew from the Island.

FORM OF GOVERNMENT

The form of government adopted is modeled closely after that of the United States. The president, who must be either a native Cuban or a naturalized citizen with at least 10 years' service in the Cuban army during the war for independence, is chosen by an electoral college for a term of four years and is disqualified for more than two consecutive terms. He has the right of appointing and removing the members of his cabinet.

The legislative power is vested in the Congress, which consists of a Senate and a House of Representatives. The former is composed of four senators from each province, chosen by an electoral board composed of the provincial councilmen and electors, the latter being twice the number of the former and chosen by popular vote. Provision is made for the retirement of one-half of the senators every four years.

The House of Representatives consists of one member for every 25,000 inhabitants, or for a fraction of more than 12,500. They are elected directly for four years, one-half retiring every two years.

The Congress meets twice a year on the first Monday in April and in November. It is endowed with extensive powers, controlling beside the financial affairs and foreign relations, also the preparation of electoral laws for the provinces and the municipalities.

For administrative purposes the republic is divided into six provinces. These are independent in their internal administration.

RELATIONS WITH THE UNITED STATES

As a condition precedent to the withdrawal of the United States' occupation, certain understandings were

arrived at between the United States and the new Cuban Republic.

A provision was incorporated in the Cuban constitution and in the treaty with the United States, which is known as the "Platt Amendment."

This provides as follows:

1. That the Government of Cuba shall never enter into any treaty or other compact with any foreign power or powers which will impair or tend to impair the independence of Cuba, nor in any manner authorize or permit any foreign power or powers to obtain by colonization or for naval or military purposes or otherwise, lodgment or control over any portion of said Island.
2. That said Government shall not assume or contract any public debt, to pay the interest upon which, and to make reasonable sinking fund provision for the ultimate discharge of which, the ordinary revenues of the Island after defraying the current expenses of government shall be inadequate.
3. That the Government of Cuba consents that the United States may exercise the right to intervene for the preservation of Cuban independence, the maintenance of a government adequate for the protection of life, property and individual liberty and for discharging the obligations with respect to Cuba imposed by the Treaty of Paris on the United States, now to be assumed and undertaken by the Government of Cuba.
4. That all the acts of the United States in Cuba during its military occupancy thereof shall be ratified and validated and all lawful rights thereunder acquired shall be maintained and protected.
5. That the Government of Cuba will execute, and as far as necessary, extend the plans already devised, or

other plans to be mutually agreed upon, for the sanitation of the cities of the island, to the end that a recurrence of epidemic and infectious diseases may be prevented, thereby assuring protection to the people and commerce of Cuba, as well as the commerce of the southern parts of the United States and the people residing therein.

6. That the Isle of Pines shall be omitted from the proposed constitutional boundaries of Cuba, the title thereto being left to future adjustment by treaty.

7. That to enable the United States to maintain the independence of Cuba, and to protect the people thereof as well as for its own defense, the Government of Cuba will sell or lease to the United States lands necessary for coaling or naval stations at certain specified points, to be agreed upon with the President of the United States.

8. That by way of further assurance the Government of Cuba will embody the foregoing provisions in a permanent treaty with the United States.

In 1915 it was definitely settled that the Isle of Pines was under Cuban sovereignty.

With the Spanish market closed to Cuban sugar and the United States as the leading available market, a modification of the American tariff laws in so far as they affected Cuban sugar became a matter of vital necessity. A reciprocity treaty between the two countries was therefore arranged providing for a tariff reduction of 20 per cent. on Cuban products.

Due to internal dissensions it became necessary for the United States to intervene in Cuban affairs for a second time on September 29, 1905.

For the next three years Cuba was under the control of the United States through the War Department.

In 1909, on January 24, the government of the Island was again relinquished to its people. A stable government was established and has since been maintained. Cuba has become one of the healthiest countries in the world and its people are prosperous and happy.

PEOPLE

The population of Cuba is estimated to be approximately 2,500,000, about 53 to the square mile.

Following is a statement from an official source in regard to the population.

"The majority of the inhabitants of the Republic are the descendants of people of Spanish origin, but owing to that peculiar climatic influence, which exerts itself in some subtle manner in nearly all parts of the world, the Cuban, proper, is really a product of the Island, and has his own traits of character, which while resembling in most respects those of other Latin-American countries is still essentially different from the people of Mexico, Central and South America owing to the fact that in this Island we have little or no mixture of the original Spaniard with the Indians who were found here by Columbus and his followers. This fact would seem, and probably does account for the more peaceable disposition of our citizens.

"One essential trait instantly recognized by the traveller or tourist who chances this way, is the inborn courtesy which is apparent in almost all grades of society, from that of the farmer in his bohio to the highest officials of the Island.

"And in this connection we wish to call attention to the fact that those descendants of the ancient slaves, who form the colored element, have acquired the same proverbial hospitality and politeness. And let it not be forgotten that of our two and one-half millions, 70% are white, while only 30% belong to the African race and its crosses.

"Of Spaniards who have become permanent residents of Cuba, there are approximately 250,000; of Americans, English and Germans there are possibly 20,000. A rather encouraging feature in

the increase of our population is the fact that we have an excess of births over deaths, amounting to 40,000 per year in addition to which our average annual increase of white immigration is 37,000 per year."

LOCATION

Cuba is the largest of the West Indies. It lies directly south of the United States. Its principal port, Havana, is only 110 miles from Key West, Florida. Cuba is located between the Gulf of Mexico and the Southern Seas. "It is crossed by the tropic of Cancer, refreshed by the northeast trades" and favored with a fertile soil and good climatic conditions. The island lies in a slightly northwesterly and southeasterly direction. The distance from Cape San Antonio at the western end of the island, in longitude $84^{\circ} 55'$, to Cape Maysi, which forms the eastern terminus, in longitude $74^{\circ} 12'$, is 740 miles. Due north of this convex curve lie the great American markets and centers of distribution. To the east across the Atlantic lies Europe; to the south are Brazil, the Argentine, Chili and their sister republics. To the west are Mexico and Central America and, via the Panama Canal, the western coasts of North and South America and Oriental nations.

Geographically the location of Cuba is most favorable to a wide distribution of the products of its soil, its forests and its mines.

Cuba has an area of 45,881 square miles, or about that of the State of Pennsylvania.

CLIMATE

The prevailing winds are those of the northeast trades which blow from that direction with a velocity of about eight miles an hour for at least 300 days in a year.

The rainfall is about 54 inches, distributed over each month of the year. The heaviest precipitation occurs from the middle of May to the end of October.

The mean temperature ranges from 70°F. in January to 82° in July. The extremes are about 60° and 90°, although in the mountain districts as low a temperature as 50° is often recorded in winter. There is an abundance of good potable water. A high degree of healthfulness is claimed. Much attention has been given in recent years to sanitation. Havana, the capital, is said to be one of the cleanest cities in the world and to have a death rate lower than New York, Washington and other large American cities.

TOPOGRAPHY

Cuba has a thousand miles of sea coast, with many bays and indentations and many excellent harbors. The level lands of the coast vary in altitude from ten to one hundred feet, while the inland plains and plateaux reach an approximate height of from 500 to 1,000 feet. There are high mountain ranges, those of the west having an average altitude of 1,600 feet. In Santa Clara province toward the center of the island the elevation of the mountains is from 2,000 to 3,000 feet, while in Oriente province the average altitude of the Sierra Maestra range is about 3,500 feet, although the peak of the Turquino reaches a height of 8,000 feet.

There are many streams but no navigable rivers of importance.

SOIL AND PRODUCTS

Cuba has a very fertile soil—the vegetation is tropical in its species and luxuriance although trees usually

found only in colder climates are also found growing there.

There are many varieties of trees suited to the needs of commerce, such as ebony, lignum vitae, cedar and mahogany.

The plants of greatest economic value are sugar cane and tobacco; coffee, cacao and henequén are also cultivated. The latter, a fibre plant, has recently assumed considerable importance among the products of the island, but coffee production is comparatively neglected.

Many fruits are cultivated, the most important from an economic standpoint are bananas, cocoanuts, pineapples and to some extent the citrus fruits.

The two great money crops of Cuba today are sugar-cane and tobacco. These two crops provide about 90% in value of the exports of the country. The export value of the sugar crop in the year ended June 30, 1915, is officially stated to have been \$179,000,000; of the tobacco crop \$23,000,000. The sugar crop for the year ended June 30, 1916—approximately 3,000,000 tons—exceeded that of the previous year by over 400,000 tons. The estimated value of this crop reaches the immense sum of around \$250,000,000. Official figures are not obtainable at the time of going to press.

MINERAL WEALTH

Iron, copper, gold, manganese, asphalt and petroleum are found in the hills of Cuba. The only minerals at present of economic importance are iron and copper ores. The export value of iron ore in the fiscal year 1914 was \$3,397,159; in 1915, \$2,083,688.

The export value of copper ore in these years was respectively, \$855,662 and \$1,530,700.

RAILROADS AND SHIPPING

Cuba has over 1,700 miles of commercial railroads and probably 500 miles in addition operated on the great sugar estates.

There are about 200 miles of electric railroads.

There are said to be about 1,250 miles of good macadam roads and over 5,000 miles of government owned telegraph lines.

The foreign shipping of Cuba is of great importance. Steamship lines ply regularly between the port of Havana and the principal ports of the world. The tonnage handled at the Port of Havana is said to exceed that of any port in the United States, excepting of course New York.

COMMERCE

Following is a statement from official sources of exports and imports of Cuba in comparative form for the year 1906, for 1909 and for 1912 to 1915 inclusive. Two facts are patent, the great excess of exports over imports and the marked preponderance of the trade with the United States. The latter fact is partly due to preferential commercial treaties which exist between Cuba and the United States. Then again as the United States is Cuba's largest customer it is but natural that she should make her largest purchases here.

Figures are all in pesos. The peso is equivalent in value to the United States dollar. See reference to money under general heading of Finances.

IMPORTS AND EXPORTS
By Countries. (Including coin)
 000 omitted

	IMPORTS					
Years Ended June 30	1906	1909	1912	1913	1914	1915
United States.....	49,384	42,612	62,826	71,754	71,420	78,972
Other countries of America.....	12,833	7,325	10,187	9,934	9,362	8,287
Germany.....	6,593	6,351	7,534	9,515	8,276	2,219
Spain.....	10,927	7,391	9,982	10,228	10,588	10,226
France.....	6,841	7,577	6,900	8,237	8,257	4,240
Great Britain.....	14,987	10,639	14,833	16,097	14,581	14,098
Other countries of Europe.....	3,971	3,836	5,389	6,997	8,064	6,581
All other countries.....	969	1,560	2,598	3,048	3,460	3,509
Total.....	106,505	86,791	120,229	135,810	134,008	128,132
	EXPORTS					
United States.....	90,197	101,457	122,969	132,581	136,936	185,995
Other countries of America.....	2,218	2,431	4,372	6,066	4,395	2,964
Germany.....	4,310	4,484	3,689	6,498	4,436	645
Spain.....	1,611	1,460	480	692	1,100	2,910
France.....	1,580	1,297	2,509	1,826	2,652	854
Great Britain.....	5,869	4,959	11,067	15,663	18,242	24,218
Other countries of Europe.....	806	1,004	916	1,170	1,219	1,213
All other countries.....	675	472	785	712	1,817	648
Total.....	107,266	117,564	146,787	165,208	170,797	219,447
	IMPORTS CLASSIFIED BY ARTICLES					
Subject to Tariff	000 omitted					
Stones, Earthenware & Ceramics.....	3,840	3,895	4,674	5,700	6,001	4,619
Metals & Metal goods.....	8,939	5,962	8,844	8,531	9,316	6,535
Drugs & Chemical products.....	3,962	4,407	7,597	8,087	7,827	8,923
Textiles.....	15,029	12,654	17,305	19,131	17,673	17,347
Paper.....	1,621	1,622	1,899	2,215	2,435	1,918
Timber.....	3,109	2,164	3,225	3,964	3,573	3,243
Cattle.....	8,191	406	473	417	379	282
Leather, skins, etc.....	4,451	4,166	5,213	6,510	5,926	6,289
Hardware & Machinery.....	12,564	5,772	13,492	15,346	15,420	12,062
Alimentary Products						
Meat.....	8,246	9,627	11,242	12,630	12,636	11,111
Fish.....	1,387	1,158	1,749	1,834	2,290	2,510
Cereals & Fruit.....	9,810	12,209	14,705	17,209	16,975	18,731
Vegetables & Legumes.....	3,447	3,569	4,905	5,513	5,176	6,060
Oil & Beverages.....	3,917	2,837	3,552	3,459	3,997	4,246
Milk Products.....	1,719	1,808	2,806	2,908	3,314	3,241
Sundry.....	3,310	3,661	5,680	5,765	5,232	4,424
Miscellaneous.....	3,691	2,874	3,034	3,582	4,886	3,768
Free of Tariff.....	7,155	5,266	8,575	9,488	8,765	7,502
Total.....	104,395	83,857	118,970	132,289	131,821	122,811
Coin.....	2,109	1,2934	1,259	3,521	2,187	5,321

*Grand Total..... 106,505 86,791 120,229 135,810 134,008 128,132
 *Fractions of thousands included.

EXPORTS CLASSIFIED BY ARTICLES

000 omitted

	1906	1909	1912	1913	1914	1915
Sugar & other Cane Products						
Crude Sugar.....	62,567	70,996	101,542	110,857	119,743	175,611
Other Products (refined, syrups, rum, liquors & confections).....	1,338	1,241	2,510	3,483	3,050	3,414
Total.....	63,905	72,237	104,052	114,340	122,793	179,025
Tobacco & Its Products						
Leaf & stripped tobacco....	15,753	17,565	17,399	21,650	19,007	14,637
Manufactured (Cigars, etc.)	15,852	15,446	13,058	13,914	13,773	8,312
Total.....	31,605	33,011	30,457	35,564	32,780	22,949
Total of Sugar, Tobacco and their products..	95,510	105,248	134,509	149,904	155,573	201,974
Other Agricultural and al- lied products						
Fruit, cacao, coffee, minor fruits and vegetables....	3,070	2,970	2,738	3,180	3,563	3,433
Forest products and textile fibres.....	1,533	1,540	1,887	2,493	1,703	968
Cattle and products.....	1,701	2,023	2,598	3,409	3,608	2,976
Total.....	6,304	6,533	7,223	9,082	8,874	7,377
Total of agricultural products, raw and manufactured.....	101,815	111,781	141,732	158,986	164,447	209,351
Other Domestic Products						
Mineral (iron, manganese, asphalt, etc.).....	2,333	2,688	3,972	4,899	4,434	3,891
Fish products.....	433	334	343	340	356	185
Other exports.....	359	759	309	495	269	717
Total.....	3,125	3,781	4,624	5,734	5,059	4,793
General total of Domestic Products exported.....	104,940	115,562	146,356	164,720	169,506	214,144
Exports of Articles of For- eign Origin.....	259	75	431	487	624	760
Total exports, excl. of coin.....	105,199	115,637	146,787	165,207	170,130	214,913
Coin.....	2,067	1,927	.....	1	667	4,534
*Grand Total.....	107,266	117,564	146,787	165,208	170,797	219,447

*Fractions of thousands included.

The last table shows the overwhelming importance of the sugar production and trade of Cuba. This is at once a source of strength and weakness. Of strength because of the peculiar adaptability of the soil and climate of Cuba to the production of sugar. Of weakness because any disaster to the sugar crop or untoward condition of

the sugar trade must at once have a far reaching effect upon the prosperity of all classes of the community.

EDUCATION

From a pamphlet recently issued by the Cuban Department of Agriculture, the following statement on the subject is quoted.

"In the matter of education, Cuba is only emerging from that unfortunate condition prevalent in many countries where public education was not fostered, which gave to the fortunate few every advantage of scientific schooling and training, while among the great masses, intelligence was left to take care of itself, if not absolutely discouraged.

"One of the first acts of the American intervention, in the year 1900, was to inaugurate a modern system of public instruction such as prevails in the United States. To this the people of Cuba instantly responded, and the strides made along educational lines, considering the long period of mental darkness in which the poor had formerly lived, have been really marvelous. But the time is yet too short and our educators have frequently been too seriously handicapped to produce the most satisfactory results, hence it is that today, like many other Latin-American countries, we have men of the highest degree of culture and broad education, men who are competent to fill most any place that scientific knowledge could demand, but, unfortunately, this intellectual class cannot count upon the support of that sober, well informed element so prevalent in the United States, since it exists only in a very small degree in the Island of Cuba. In other words: we have the two extremes, but seriously lack that general culture which comes from efficient public instruction."

TITLES TO LANDS

On this subject quotation is again made from the official pamphlet referred to above.

"All titles to lands in Cuba emanated originally from the Crown of Spain, records of which are found in the archives of the Republic. Transference of property in the Island in order to be valid must be registered, paying the tax thereon, which in itself is a form of security. In addition to this, scattered throughout

the judicial districts of the Island, are bureaus of registry in which all mortgages, encumbrances, etc., or anything that might tend to invalidate the title, are recorded. A certificate from the Registrador or chief of this bureau, may be obtained at any time. This certificate is in many senses equivalent to an abstract of title.

"It is stated by prominent legal authorities who are familiar with both countries, that property rights, as a rule, are more safely guarded in the Republic of Cuba than in the United States.

"Owing to the existence of these bureaus of registry in Cuba, an investigation into the validity of titles to property can always be secured through the services of any reliable attorney."

BANKING

The official statement on this subject is as follows:

"Although banking in the modern sense of the word was almost unknown in Cuba until the exit of Spanish authority, we have at the present day an excellent, up-to-date and thoroughly organized banking system with facilities equal to those of any of the world's capitals.

"Among the more prominent are the Banco Nacional de Cuba, Royal Bank of Canada, Banco Espanol de la Isla de Cuba, Bank of Nova Scotia, Trust Company of Cuba, Bank of Havana, Uppmann & Co., and Gelats, the two latter being private institutions. All of these banks have large deposits, some of them \$25,000,000, and are in close touch with the other large banking houses of the financial world.

"Ten per cent. is the usual rate of interest charged by the local banks on commercial paper of small denomination. This rate, however, decreases when large amounts are involved, especially if the borrower is a man of established integrity."

CURRENCY

At the time of the American occupation in 1898, Cuba was cursed with an inconvertible paper currency so worthless that the Government itself would not receive it.

The standard of money in Spanish Cuba was Spanish gold, a 25 peseta piece being the principal coin. Spanish

silver and French gold were also in circulation. The silver coins were relatively less valuable than the gold; the discount being about 10 per cent.

By order of the President of the United States, which took effect January 1, 1899, the United States gold dollar was declared the standard of value. During the American occupation arbitrary values were established for the silver coins, while all gold coins, American, Spanish and French, were exchangeably used at their relative bullion values. Later on the values of the silver coins appear to have again fluctuated. The result was that Spanish, French, United States, and small quantities of other moneys circulated indiscriminately. On nearly every prominent corner in Cuban cities, and especially in Havana, in news, cigar and lottery ticket stands were money changers who did a thriving business out of the wide confusion of values. Many abuses and inconveniences arose from this condition of affairs. Banks and business houses had to keep their accounts in three moneys—Spanish, French and American—and the values of the various coins were constant causes of misunderstandings and a detriment to commerce generally.

The Cuban government at last decided to end this state of affairs and by decrees dated September 11 and November 24, 1915, provided that after December 1, 1915, the new coins and American money should alone circulate. Proper arrangements were made for the conversion of accounts to the new basis. A rate of exchange was promulgated at which accounts should be adjusted and at which old coins would be converted into new.

The old coins were gathered in through the Banco Nacional de Cuba and sent to the United States to be reminted.

"The Cuban money now consists of gold, silver, and nickel coins. It is estimated that there is more than \$12,000,000 of this money in circulation. It is on an absolute parity with the money of the United States, and as yet there is possibly more American money in trade channels than Cuban. It is forbidden to take or ship the national money out of the country. No bills have been issued. Some factions of the business and political world favor the issuance of bills direct by the National Treasury; others are equally strong for a national bank of issue. This is a matter yet to be determined and upon which there exists a sharp diversity of opinion. Meanwhile, American notes are the only ones to be had. The supply is apparently adequate."

The Cuban gold coins are \$20, \$10 and \$5, bearing on one side, in relief, the head of José Martí, and on the other, the coat of arms of Cuba half encircled by laurel wreaths. On one side the coin bears the inscription "Patria y Libertad" and the date, and on the other, "República de Cuba," and the denomination. Each coin is marked with its fineness. The coins are exceedingly artistic and handsome. The \$5 piece has sprung into great favor and is known colloquially as the "Martí."

The money is upon the same system as that of the United States, and the dollar sign is used to designate it. The peso, or silver dollar, equals 100 centavos. Instead of a 50-centavo piece, there is the "cuarenta," or 40-centavo coin; the "veinte," or 20-centavo; and the silver 10-centavo piece. There are nickel 5-centavo pieces, and a 2-centavo coin and a 1-centavo coin of nickel. The silver currency bears the coat of arms of Cuba on one side and a five-pointed star surrounded by rays on the other.

GOVERNMENT FINANCES

The principal revenues of the Republic of Cuba are derived from customs duties. It is important to note this fact as the interest and sinking funds for the external debt are a charge against the customs receipts.

The following comparative statement is taken from official reports of the Secretary of the Treasury of Cuba. These are the budget figures for 1911 to 1914; for 1915 the figures are those of actual receipts and disbursements.

BUDGET OF RECEIPTS AND DISBURSEMENTS

FISCAL YEARS ENDED JUNE 30

Revenues	1911	1912	1913	1914	1915
Customs.....	\$24,737,580	\$24,737,580	\$26,434,000	\$26,434,000	\$24,327,114
Consular Fees.....	886,000	886,000	500,000	500,000	606,718
Posts and Telegraph	862,000	862,000	1,076,900	1,076,900	1,175,083
Direct Taxes.....	896,000	896,000	1,113,900	1,113,900	1,429,461
Government Prop- erty and Rights..	260,000	260,000	380,700	380,700	255,814
Sundry.....	238,100	238,100	834,700	834,700	1,100,938
National Lottery....	3,000,000	3,000,000	3,700,000	3,700,000	3,523,189
Health Department.	600,000	600,000			
Excise.....	3,700,000	3,700,000	3,900,000	3,900,000	3,332,588
Sundry.....	.....	.....	.....	.....	985,391
Minting National Currency.....	.....	.....	.....	.....	4,653,190
Total	\$34,779,680	\$34,779,680	\$37,940,200	\$37,940,200	\$41,389,481
Disbursements					
Amortization and Interest of Debt.	\$3,915,000	\$3,915,000	\$4,010,500	\$4,010,500	\$4,381,282
Administration of Special Taxes....	423,782	423,782	419,782	419,782	409,039
Legislative.....	857,220	857,220	851,220	851,220	889,619
Judicial.....	1,748,405	1,748,405	1,816,580	1,816,580	1,838,153
Presidency of the Republic.....	150,120	150,120	149,320	149,320	173,306
Secretary of State..	689,394	689,394	717,324	717,324	886,275
" of Justice.	209,840	209,840	221,640	221,640	206,899
" of the In- terior.....	9,014,554	9,014,554	10,117,394	10,117,394	11,239,704
Secretary of the Treasury.....	2,524,817	2,524,817	2,307,620	2,307,620	2,891,834
Secretary of Public Instruction and Fine Arts.....	4,140,542	4,140,542	4,782,653	4,782,653	4,722,277
Secretary of Public Works.....	2,415,360	2,415,360	3,704,625	3,704,625	3,884,776
Secretary of Health and Charity.....	4,114,265	4,114,265	3,784,987	3,784,987	4,089,720
Secretary of Agri- culture, Com- merce and Labor.	793,300	793,300	488,400	488,400	859,673
Sundry.....	.....	.....	602,102	602,102	1,716,885
Minting National Currency.....	.....	.....	.....	.....	2,256,944
Total.....	\$30,996,599	\$30,996,599	\$33,974,147	\$33,974,147	\$40,395,885

PUBLIC DEBT

When at the conclusion of the Spanish-American War the Commissioners met in Paris to arrange the treaty of peace, the two contested points were the sovereignty of the Philippine Islands and the Cuban debt. The Spaniards contended that the debt was attached to the Island, and that its change of government did not affect its liability. The Americans insisted that the debt had not been contracted by the Cubans, but wrongfully and forcibly imposed by Spain and spent for the most part in fighting against Cuba's legitimate aspiration for freedom. The Spaniards were forced to submit and to take over the debt.

While the new Republic was thus freed from indebtedness incurred by Spain, yet it had to face a heavy debt, albeit of honor, to those who had financed the revolution and to the soldiers who had fought its battles.

The Cuban Constitution contains this paragraph: "The Republic of Cuba will recognize no debts or obligations save those legitimately contracted for the purposes of the revolution by the Generals of the Army of Liberation, subsequent to the 24th of February, 1895, and prior to the 19th of September of the same year, the date on which the Constitution Jimaguaya was promulgated, and the debts and obligations that the Revolutionary Government has since contracted itself or by its authorized representatives abroad."

To provide for the payment of the old soldiers an external loan for \$35,000,000 bearing 5% interest was successfully placed in the United States in March, 1904.

As this loan did not fully provide the amount necessary for settlement with the old soldiers the balance

due them was arranged by giving them bonds bearing interest at 5%. These bonds are more fully described in the bonded debt table under the designation of Interior Debt.

Meanwhile the obligation which the Republic had entered into with the United States to provide for the effectual sanitation of the island was not observed.

Therefore at the time of the second intervention in 1908 arrangements were made for a second external loan for \$16,500,000 at 4½% interest. These bonds were disposed of in the United States over a period of three years from 1909 to 1911 inclusive, at the rate of \$5,500,000 a year.

The proceeds were used for advances to the cities of Havana and Cienfuegos to cover the expense of providing an improved water supply and sewerage system for those cities and for paving the city of Havana. Provision was also made for refunding \$2,196,585 6% bonds issued in 1896 and 1897 by the Cuban Junta.

The proceeds of this last loan not proving to be sufficient for the purposes for which it was issued, a further external loan for \$10,000,000 at 5% interest was made in the United States in 1914.

In 1915 an internal issue of \$2,457,000 bonds was made at 6% interest.

The total amount of bonds issued by the Republic of Cuba up to July 15, 1915, was \$75,119,700. Of this amount the sum of \$5,915,600 was retired by the sinking fund leaving the amount outstanding on July 15, 1915, \$69,204,100. The details of the bonded debt are shown in the following table and the accompanying notes.

BONDED DEBT STATEMENT JULY 15, 1915

EXTERNAL DEBT

Title of Loan	Interest Rate	Payable M & S	Outstanding
1 Loan of 1904.....	5	M & S	March 1944
2 Loan of 1909.....	4½	F & A	Aug. 1949
3 Loan of 1913.....	5	F & A	Feb. 1949
Total External Debt.....			\$56,145,000
 INTERNAL DEBT			
4 Interior Debt....	5 30	J & D 31	See note
5 Treasury Bonds of 1915.....	6 28	M & N 28	See note
Total Internal Debt.....			\$13,059,100
Total Debt.....			\$69,204,100

For particulars as to rights of redemption before maturity and details as to special security provided for the external loans see the notes following.

NOTES

1 FIVE PER CENT GOLD BONDS OF 1904.

Dated March 1, 1904. Due March 1, 1944.

Interest payable March 1 and September 1.

Principal and interest payable free from any and all Cuban taxes.

Original issue \$35,000,000 Outstanding \$29,645,000

Coupon bonds \$500 and \$1,000; registered \$500, \$1,000, \$10,000 and \$50,000. Interchangeable.

Coupon bonds and the coupons therefrom are payable in United States gold coin in New York; in pounds sterling in London; in reichmarks in Frankfort o/M and Berlin; in francs in Paris:—\$1,000 bond=\$205. 15. 2=M. 4,200=Francs 5,180.
Rate of Exchange=\$4.86=23.81c=19.305c.

Coupon bonds—Series A numbered 1 to 33,000.
Series B do 1 to 4,000.

Coupon bonds are issued in the Spanish, English, German and French languages. The coupons are in Spanish.

Registered bonds are issued in exchange for coupon bonds. Principal and interest are payable in United States gold coin in New York City only. Registered bonds are issued in Spanish and English only. They may be re-converted into coupon bonds. Transfer agents: Speyer & Co., New York.

"The cause of action against the Cuban Government upon each of the coupons shall be prescribed in five years from its date of maturity in case the same shall not be presented for payment within such period. The cause of action against the Government upon each of the bonds shall be prescribed in fifteen years from its date of maturity in case the same shall not be presented for payment within such period."

Authentication

The bonds are authenticated as follows by Speyer & Co.

"Speyer & Co. hereby certify that the within bond is one of the bonds aggregating \$35,000,000, face value, referred to in the agreement between the Republic of Cuba and Speyer & Co., mentioned in said bond.

Sinking Fund

The period for the amortization of the loan began on March 1, 1910. The annual appropriation is \$1,020,000 United States gold. This sum is accumulated in monthly payments of \$85,000 made to Speyer & Co., New York. These amounts are applied to the purchase of bonds if obtainable at or below par and accrued interest, otherwise bonds are drawn by lot by Speyer & Co. for redemption at par and accrued interest. Drawings have usually taken place in July, bonds to be paid on the following coupon date, September 1st. \$5,355,000 had been drawn or purchased for the Sinking Fund up to July 15, 1915.

The following notice appears in the lower half of the face of the registered bonds, with an accompanying indication that there are reserved uncancelled for exchange for the registered bonds, coupon bonds, numbers to be specified, of the same issue:

"NOTICE—Whenever any coupon bond or bonds bearing any of the foregoing numbers shall have been drawn for redemption as provided in Article Third of the Agreement mentioned in this bond, the principal of this bond or the portion thereof against which such drawn coupon bond or bonds is or are reserved for exchange shall cease to bear interest from and after the date fixed for the redemption of such drawn coupon bond or bonds, and upon presentation and surrender of this bond to Speyer & Co. in the

City of New York on or after the date fixed for such redemption, the registered holder hereof will be entitled to be paid an amount of the principal hereof equal to the face value of the said drawn bond or bonds with interest on such amount to the date fixed for such redemption, and the registered holder hereof will be entitled to receive another registered bond for the balance of the principal amount thereof, after deducting the amount of the principal of such drawn coupon bond or bonds, such new registered bond to bear interest from the date to which interest shall have been paid on such balance of said principal amount."

The numbers of the drawn bonds, as well as all other notices referring to the loan, are published in two newspapers each, in New York, London, Frankfort, Berlin and Paris. On the day fixed for the redemption of the drawn bonds the interest ceases thereon.

Security for Loan

These bonds were issued pursuant to a law passed by the Congress of the Republic of Cuba on February 27, 1903, as amended by the law of January 25, 1904. Following are the sections of the law providing special security for the bonds and interest.

"ARTICLE II. The Republic of Cuba pledges its good faith, and its credit, for the retirement of the bonds and for the prompt payment of the interest; and as a special guarantee for the payment of the interest and the retirement of these bonds, the Executive Power is authorized to set aside, compromise, and apply for this purpose a sufficient quantity of the receipts of the Custom House of the Republic of Cuba, in whatever form and manner the Executive may consider sufficient and proper. * * *

Article III. In order to assure the retirement of the bonds and the interest of the loan, and in accordance with the third section of Article 59 of the Constitution, a special permanent tax is created upon the manufacture, sale and consumption of the following articles:

Domestic and foreign alcoholic drinks. * * *

Domestic and foreign artificial waters and drinks. * * *

Manufacture and consumption of matches. * * *

Manufacture of tobacco. * * *

Manufacture of sugar. * * *

Manufacture and sale of playing cards. * * *

Article IV. The surplus which may result from this tax shall be applied to the voluntary retirement of the bonds which may be issued, unless some other application is determined by law."

Under the contract entered into between the Government of Cuba and Speyer & Co., dated May 11, 1904, that Government as a special security for this loan, assigned, pledged and hypothecated

(with precedence over any and all assignments, pledges or hypothecations of customs receipts which may thereafter be made), 15% of the customs receipts, a sum equal to which is paid weekly to Speyer & Co. in New York, or to their agents in Havana, until the amounts received by Speyer & Co. in the aggregate equal the amount requisite for the payment of the annual charges for the year then current (counting from March 1 of one year to March 1 of the succeeding year) for interest and sinking fund payments on account of the loan.

It was agreed further that beginning with March 1, 1910, the sum of \$1,020,000 U. S. gold should be accumulated annually with Speyer & Co., at the rate of \$85,000 per month to be applied as a sinking fund.

If the 15% of the customs receipts, together with the amounts paid on account of the \$85,000 per month, should at any time prove insufficient to fulfill the requirements of the loan, including interest and sinking fund, the Cuban Government agreed to set aside, pledge, hypothecate and cause to be paid an amount equal to such additional percentage of said customs receipts as would, with said 15% and the amounts paid on account of said \$85,000 per month, produce in eleven months the amounts required to fulfill such requirements.

Application of Proceeds of Loan

In regard to this the law provides as follows:

“ARTICLE V. The result of the loan shall be applied, as far as it goes, to the pay of the Army of Liberation.

“ARTICLE VI. In view of the amount of the pay of the disbanded Army of Liberation, which may remain after a part has been satisfied, as provided for in the preceding article, Congress shall determine the manner in which the Republic shall be relieved from this responsibility, although without affecting in any manner whatever the guarantees of the loan, which are established in this law.”

Public Offering

Offered May 23, 1904, by Speyer & Co. and Harvey Fisk & Sons at 97 and accrued interest. A simultaneous issue was made in London, Frankfort and Amsterdam.

2 FOUR AND ONE-HALF PER CENT GOLD BONDS, DUE 1949.
Dated August 2, 1909. Due August 1, 1949.

Interest payable February 1 and August 1.

Authorized and outstanding, \$16,500,000

Coupon bonds, \$1,000. Numbered Series C 1 to 16,500.

Principal and interest payable free of all Cuban taxes.

Principal and interest payable in United States gold coin at the office of Speyer & Co., New York, or at the holders' option in London, at the rate of \$4.86 per pound sterling, or in Frankfort o/M. or Berlin, at the rate of M. 4.20 per dollar, or in Paris, at the rate of Francs 5.18 per dollar.

Redemption Right

The bonds are redeemable, as an entire issue, at 105 and accrued interest, on the first day of any month, upon not less than thirty days' previous notice.

Sinking Fund

On August 1, 1919, and on the first day of each month thereafter until all the bonds have been paid, the Republic of Cuba pledges itself to set aside from its customs receipts and other revenues, and to pay to Speyer & Co. the sum of \$85,000 to be applied to the payment of the interest on the bonds then outstanding and to the sinking fund for the amortization of the loan. The sinking fund will operate by the purchase of bonds in the open market when obtainable at prices not exceeding par and interest, and, if not so obtainable, then by drawing bonds at par and accrued interest. The sinking fund is calculated to retire all the issue by August 1, 1949.

Authority for Issue and Purpose

These bonds were authorized by decree of Charles E. Magoon, Provisional Governor of Cuba, dated Havana, January 25, 1909. This decree was made during the second occupation of Cuba by the United States. Following is a copy of the decree.

Official Gazette.
Published No. 21,
January 26, 1909.

[Copy of Decree.]

REPUBLIC OF CUBA

Under the Provisional Administration of the United States.

DEPARTMENT OF FINANCE

Decree No. 114.

Havana, January 25, 1909.

WHEREAS, There have been undertaken during the existence of the Provisional Government after full consideration of the subject by the President, the Secretary of State and the Secretary of War of the United States of America, two large projects affecting

the sanitation of the Island of Cuba, to wit: the sewerage and paving of the City of Havana and the installation of a water and sewer system in the City of Cienfuegos; and

WHEREAS, The original contracts for these important sanitary works had been let during the Military Intervention in Cuba and during the administration of the Republic of Cuba by President T. Estrada Palma; and

WHEREAS, One of the conditions under which the Military Government of the Island of Cuba was ended and the Republic of Cuba established required the carrying out of the plans devised for the sanitation of the cities of the Island and the prevention of a recurrence of epidemic and infectious diseases and to which the Government of the United States understands the provisions of the Constitution contained in the fifth article of the Appendix applies; and

WHEREAS, The present supply of water in the City of Havana is deficient and the distributing system requires important repairs and extensions; and

WHEREAS, It is also desirable to insure the ability of the Republic of Cuba to meet these obligations and to refund the outstanding bonds of the Cuban Republic drawing 6% interest, while at the same time maintaining an efficient government;

Now, Therefore, I, Charles E. Magoon, by virtue of the extraordinary powers vested in me as Provisional Governor, with the approval of the Secretary of War of the United States first had and obtained, and upon the recommendation of the Acting Secretary of Finance hereby

ORDER AND DECREE:

ARTICLE I. The President of the Republic of Cuba is hereby authorized to issue bonds for a foreign debt for an amount not to exceed sixteen million five hundred thousand dollars (\$16,500,000) in gold in money of the United States of North America, at the rate of four dollars and eighty-six cents (\$4.86) for each pound sterling, or the equivalent in other foreign moneys; the said bonds to be issued for amounts not exceeding a total of five million five hundred thousand dollars (\$5,500,000) in money of the United States of North America in any one year; the money realized from the sale of such bonds to be devoted to the specific purposes hereinbefore stated.

These bonds shall bear such interest as may be determined by the President of the Republic of Cuba, the rate not to exceed 5%

per annum and shall be retired within forty years. The principal as well as the interest shall be exempt from all kinds of Cuban taxes that exist or may be imposed thereafter.

ARTICLE II. The Republic of Cuba pledges its good faith, and its credit, for the retirement of these bonds and for the prompt payment of the interest; and as a special guarantee for the payment of the interest and the retirement of these bonds, the President of the Republic of Cuba is authorized to set aside, pledge, and appropriate to this purpose a sufficient amount of the revenues of the Republic of Cuba, in whatever form and manner the President of the Republic may consider sufficient and proper.

The President of the Republic is also authorized to determine the terms and conditions of the issue and service of this loan, reporting to Congress concerning the conditions and the result of the negotiations.

ARTICLE III. Article IV. of Decree 681, dated June 22, 1908, setting aside and pledging 10% of the receipts of the customs revenues of the port of Havana as a special guarantee for the payment of work done in connection with the existing contract for the paving and sewerage of the City of Havana, is hereby modified to the extent of releasing the revenues so set aside and pledged to the extent and amount of the sums paid from time to time on said contract from funds realized by the sale of the bonds authorized in Article I. of this Decree.

ARTICLE IV. The President of the Republic of Cuba shall issue the necessary Orders, Decrees and Regulations and enter into and execute such contract or contracts which may be necessary for the execution of this law.

GABRIEL GARCIA ESCHARTE, CHARLES E. MAGOON,
Acting Secretary of Finance. Provisional Governor.

An agreement between the Republic of Cuba and Speyer & Co., dated August 25, 1909, provides that until August 1, 1909, the Government will set aside from its customs receipts and other revenues, and pay to Speyer & Co., on the first day of each month, a sum equal to one-sixth of the amount of the semi-annual instalment of interest next thereafter becoming due on the total amount of bonds issued and outstanding.

It also provides that on August 1, 1919, and on the first day of each month thereafter until all the bonds have been paid, it

will set aside from its customs receipts and other revenues and pay to Speyer & Co., the sum of \$85,000, to be applied to the payment of interest on the bonds then outstanding and to the sinking fund for the amortization of the loan.

Public Offering

These bonds were originally offered by Speyer & Co. as follows:

September 7, 1909, \$5,500,000 at 95 and accrued interest; offered also in London.

February 26, 1910, \$5,500,000 at 97½, and accrued interest; offered also in London and Amsterdam.

February 4, 1911, \$5,500,000 at 98¾ and accrued interest; offered also in London and Amsterdam.

3 EXTERNAL DEBT 5% GOLD BONDS OF 1914

Dated Feb. 2, 1914.

Due Feb. 1, 1949.

Authorized and Outstanding \$10,000,000.

Interest payable Feb. 1 and Aug. 1.

Coupon bonds \$100, \$500 and \$1,000; registered \$1,000, \$5,000 and \$10,000.

Coupon bonds of \$500 and \$1,000 denominations may be registered as to principal. Coupon bonds of \$100 and \$500 may be exchanged for coupon bonds of \$1,000 denomination. Coupon bonds in denominations of \$1,000 may be exchanged for fully registered bonds and the latter may be reconverted into coupon bonds.

Principal and interest of both coupon and registered bonds payable in New York in United States gold coin; in London in pounds sterling at \$4.86 per pound. Coupon bonds and coupons are also payable in Berlin and Hamburg at the rate of M. 4.20 per dollar or in Paris at the rate of Francs 5.18 per dollar.

Principal and interest are payable free of all Cuban taxes.

The text of the bonds is printed in Spanish, English and French. The coupons are in English.

Fiscal and transfer agents for this loan, J. P. Morgan & Co., New York.

Authentication

Bonds to be held valid or binding must have the certificate endorsed thereon signed by the fiscal agents.

Redemption Right

All the bonds shall mature and be redeemed not later than the first of February, 1949; but the Republic of Cuba will amortize them at the rate of one twenty-ninth of the total principal sum (being approximately \$345,000 face value) in each year beginning with the year 1921, redeeming bonds to that amount on the first day of February, 1921, and a like amount in each succeeding year, in each instance at the rate of one hundred and two and one-half per centum of par value, if bonds be not bought in the market at a lower rate as herein provided.

The Government reserves also the right to redeem, on any interest date in and after the year 1921, bonds in a sum exceeding said \$345,000 face value, whether all those in circulation or any part thereof, at the rate of one hundred and five per centum of the par value. In redeeming bonds the coupon maturing on the date the bonds are redeemable shall also be paid.

Sinking Fund

On the tenth day of November, 1919, and on the tenth day of each and every month thereafter until such payments shall have been sufficient to pay or to redeem all of the bonds, the Government shall pay to the bankers, at their office in the City of New York, the sum of \$29,500 in gold coin of the United States of America of the present standard of weight and fineness as a sinking fund for the amortization of the said loan; so that on the tenth day of October, 1920, and on the tenth day of October of each year thereafter, there shall be on deposit with the bankers as a yearly sinking fund instalment the sum of not less than \$354,000.

Such sinking fund instalment so held by the bankers on the tenth day of October in each year, as aforesaid, shall be applied by them from time to time thereafter prior to the first day of December next ensuing, to the purchase of bonds in the market at a price less than one hundred and two and one-half per centum if reasonably practicable.

If mutually agreed upon by the Government and the bankers, bonds may be purchased as aforesaid out of moneys in the sinking fund at any time prior to such tenth day of October.

Procedure in Case of Drawings

"In case, prior to any such first day of December, the bankers shall fail to purchase bonds to an amount sufficient to reduce the available sinking fund instalment to less than the sum of \$10,250, the bankers within fifteen days after such date, in the presence of a notary public and (if required by the Government) of an agent designated by the Government, shall draw by lot by such method as they shall determine and as shall be approved by the Government, bonds to be redeemed on the ensuing first day of February to such amount as shall be sufficient at one hundred and two and one-half per centum to exhaust substantially the amortization fund available for such purpose. The numbers of bonds of the several series (if more than one series be outstanding) shall be drawn in the approximate ratio of the amount of each series outstanding.

* * *

"Should the Government decide to redeem a greater amount of bonds, as hereinbefore provided, at one hundred and five per centum, the Government will deliver to the bankers the sum necessary therefor two months in advance of any interest date, in order that they make the proper drawing in the manner prescribed in the next preceding clause, within fifteen days after the delivery of the money.

"When drawings shall have been made, the bankers will give notice thereof to the Government for publication in the Gaceta Oficial, and will publish such notices at least once a week for four consecutive weeks in two daily newspapers of general circulation in the City of New York, and, if in the exercise of their sole discretion the bankers shall so elect, in one or more such newspapers in the cities of London, Hamburg, Berlin, Havana or Paris, the first publication of such notice to be at least thirty days and not more than forty days prior to the date appointed therein for the redemption. Said notice shall contain a sufficient designation of the numbers and series of the bonds so drawn and the date appointed for their redemption, which shall be the date of the next interest payment, and the announcement that on or after that date upon presentation and delivery, in any one of the cities of New York, London, Hamburg, Berlin or Paris, in the respective offices

indicated in such notice, of the said bonds and all coupons pertaining thereto and maturing on said date of redemption and subsequent dates, the bonds so drawn will be paid at one hundred and two and one half per centum or at one hundred and five per centum, as the case may be, and interest accrued to the date of redemption, in the money in which said bonds and interest are expressed to be payable in the city in which presented, in accordance with the covenants of said bonds. Outstanding bonds (including portions of registered bonds) so drawn will cease to bear interest on and after the date appointed for redemption in such notice, notwithstanding anything stated to the contrary in said bonds or in the coupons pertaining thereto. All bonds purchased or redeemed out of any such amortization fund shall be immediately cancelled by the bankers and be delivered to the government.

Authority for Issue

"These bonds were authorized by the Law enacted by the Cuban Congress, as published in the "Gaceta Cuba" on December 30, 1913, and the issue thereof was made pursuant to the Presidential Decree, No. 73, dated January 20, 1914, and an agreement dated January 31, 1914, Deed Serial No. 21 (as amended by supplementary agreement March 20, 1914, Deed Serial No. 59) between the Republic of Cuba and J. P. Morgan & Co.

Security for Payment

"The agreements above referred to contain and provide in part the following:

"WHEREAS, In authorizing the loan the aforesaid law (Law of Dec. 30, 1913), in Article IV., thereof empowered deponent to set aside, pledge and appropriate a sufficient amount out of the revenues of the Government to guarantee the payment of the interest and amortization of the loan thus providing as required by Article LIX. of the Constitution, paragraph 3, clause 1, for the payment of these charges from permanent revenues of the Republic;

"WHEREAS, As set forth in the message of October 8, 1913, sent by the president to the congress, the amount annually payable by the Government to discharge its obligations in respect of loans heretofore contracted does not and will not exceed \$4,010,000, and the aggregate amount of the special taxes and percentage of customs receipts heretofore pledged or allocated as security for the payment of the aforesaid obligations, are in excess of six million three hundred thousand dollars (\$6,300,000) per year and have been increasing progressively;

"WHEREAS, The ordinary revenues of the Republic, after defraying the current expenses of the Government, are more than adequate to pay the interest on, and to make reasonable sinking fund provision for the ultimate discharge of the public debt, which is the subject of this deed, all within the meaning and purpose of Article II. of the permanent treaty between the Republic and the United States of America, and the government of the United States of America being advised in the premises, has formally acquiesced in the creation of such public debt; * * *

"The Republic of Cuba pledges its good faith and its credit for the due and punctual payment of the principal of the bonds, and accordingly of the sums herein provided to be paid for amortization, and for the due and punctual payment of the interest on the bonds; and, as a special guaranty and security for such payments, does hereby allocate, pledge and appropriate 10% of the entire customs receipts of the Island of Cuba, and also such additional amounts of customs receipts and of other revenues of the Island as may be required to make the said payments, in case the said 10% of the customs receipts at any time shall be insufficient; and such allocation, pledge and appropriation of said customs receipts and other revenues shall be prior and superior to any other charge which hereafter may be created thereon, and shall be subject only to such charges upon the customs receipts and other revenues as heretofore have been created by the agreement in respect of the \$35,000,000 Five per cent. Loan of 1904 and by the agreement in respect of the \$16,500,000 Four and One-half per cent. Loan of 1909.

"In the first ten days of each month, beginning in the month of February, 1914, the Government will pay to the bankers at their office in the City of New York, or at the office of their representative which they shall designate in the City of Havana for the transfer of funds to New York, at the cost of the Government, a sum equivalent to the sixth part of the amount of interest to be paid on outstanding bonds on the next ensuing interest date, so that before the tenth day of July the bankers shall have in their hands the sum necessary for the payment of interest on the first of August, and before the tenth of January the sum necessary for the payment of interest on the first of February. Funds will be supplied in like manner for the amortization."

Public Offering

Offered February 10, 1914, by J. P. Morgan & Co., Kuhn, Loeb & Co., First National Bank and National City Bank, New York, at 98½ and accrued interest.

4 INTERIOR DEBT OF 1905

Authorized \$11,161,900	Outstanding \$10,713,400
	Redeemed 448,500

Dated Nov. 28, 1905. Maturity—Indefinite
Coupon bonds \$100. Interest payable May 28 and Nov. 28.

Principal and interest payable in Havana in United States gold coin.

These bonds were issued under a law dated August 29, 1905. They were not sold for cash but were issued directly to the soldiers of the liberating army or their assigns in part payment of the amounts due them in the war of 1896 to 1898, being the amount left unprovided for after applying the proceeds of the Speyer loan of \$35,000,000. See Note 1.

Following is a translation of the text of the law:

REPUBLIC OF CUBA**Executive Power****(Office of the President)****TREASURY DEPARTMENT**

I, Tomas Estrada Palma, Constitutional President of the Republic of Cuba, make known, that Congress has voted and I have sanctioned the following law:

ARTICLE I. The Executive Power shall devote to the payment of the 50% due of the warrants of the liberating army, as far as they will go, the funds that may be on hand ninety days after the promulgation of this law, arising from the following: Surplus of the loan of \$35,000,000; the proceeds of the collection of taxes imposed by the law of said loan; and the funds existing at that date in the vaults of the public treasury.

Of the total amount resulting from the accumulation of the amounts expressed above, the sum of six million dollars (\$6,000,000) shall first be deducted and set aside as a reserve fund to remain in the vaults of the public treasury in order to pay the obligations that the Congress may determine.

ARTICLE II. After the payment expressed in Article I. shall have been effected, the balance resulting in favor of each one of the creditors shall bear interest of 5% annually, beginning ninety days after the promulgation of this law.

ARTICLE III. To each creditor shall be issued bonds which shall be called "Internal Debt Bonds," for the final balance resulting in his favor. Said bonds shall bear interest of 5% annually,

payable semi-annually when due, by means of coupons which shall be attached to the bonds.

ARTICLE IV. In each regular budget shall appear the sum that Congress may agree to appropriate for the amortization of these bonds.

ARTICLE V. The amortization shall be effected by drawing lots, and the amortization of any bond having taken place, it shall be destroyed.

ARTICLE VI. The bonds referred to in Article III., shall be of \$100 each; smaller fractions than this sum resulting in the liquidation effected in accordance with Article II., shall be paid in cash.

ARTICLE VII. In all that is not prescribed by this law, the bonds shall be subject to the provisions of the Commercial Code, covering securities to bearer.

ARTICLE VIII. All laws, regulations, orders and other acts opposed to this law, are hereby revoked.

THEREFORE, I order that this Law be complied with and executed in all its parts. Issued at the Executive Mansion (Palace of the President) at Havana, August 22, 1905.

Juan Francisco O'Farrill,

T. Estrada Palma.

Secretary of State and Justice,

Acting Secretary of the Treasury.

Official Gazette, August 29, 1905.

It will be noted that there is no provision whatever in the law as to maturity of the bonds, nor as to the number of coupons attached thereto, but in the "Memoria" of President Menocal, published in 1915, covering the period from May 20, 1913, to June 30, 1914, and in the section for the Treasury over the signature of Dr. Leopoldo Cancio, Secretary of the Treasury, it is stated that the outstanding bonds amount to 107,595 and that coupons up to Nov. 17 have expired, all of which have been paid; that all of these bonds have been called in for the purpose of attaching to them additional coupons to be numbered from 18 to 48, and that at that time most of the bonds had been so presented and the new coupons so attached. Since this Memoria was prepared additional bonds have been drawn and paid, leaving outstanding on June 30, 1915, 107,134 bonds of \$100 each, and these bear coupons up to No. 48, or twenty-four years from January 1, 1905; at least so it appears.

There appears to be no law, decree or regulation authorizing these additional coupons which apparently carry the maturity of the debt to 1929, but under the Article IV., quoted above, apparently there was no certain fixed maturity for these obligations, though there appears to be something which might have been an implied promise to pay within eight and one-half years if not sooner drawn for amortization.

An examination of the budgets shows appropriations beginning with the budget of 1910-'11-'13, the appropriation, however, covers both the interest and amortization, with no segregation.

5 TREASURY BONDS OF 1915

**Dated January 30, 1915. Due January 30, 1918.
Authorized \$5,000,000 Outstanding July 15, 1915, \$2,345,100.
Interest Payable January 30 and July 31.**

By law of October 29, 1914, known as the law of Economical Defense, the Government authorized an issue of treasury notes up to \$5,000,000 with interest at 6% and payable in three installments. The law provides that these bonds may be given in payment of all obligations contracted by the State.

This issue was authorized as an emergency measure due to the temporary unsettlement of the sugar trade and derangement of the exchanges incident to the European war.

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